

Marengo Mining Limited

ABN 57 099 496 474

Annual Financial Report

for the year ended 30 June 2007

Corporate Information

ABN 57 099 496 474

Directors

John Patrick Horan (Non Executive Chairman)
Leslie Sidney George Emery (Managing Director)
Dennis William Wilkins (Finance Director)
Douglas Dunnet (Non Executive Director)

Company Secretary

Dennis William Wilkins

Registered Office

Level 2, 9 Havelock Street
WEST PERTH WA 6005
Telephone: (08) 9429 0000
Facsimile: (08) 9429 0099

Postal Address

PO Box 289
WEST PERTH WA 6872

Solicitors

Blakiston & Crabb
1202 Hay Street
WEST PERTH WA 6005

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

Auditors

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

Internet Address

www.marengominig.com

Email Address

marengo@marengominig.com

Stock Exchange Listings

Marengo Mining Limited shares are listed on Australian Securities Exchange (ASX) and Port Moresby Stock Exchange (POMSOX). The 20 cent options expiring on 28 February 2008 are listed on ASX.

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Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Marengo Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

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 Patrick Horan, FCPA, FCIS (Chairman, member of audit committee)

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 overseas. He is currently a director of Adelaide Resources Limited, listed on Australian Securities Exchange (ASX) and a director of Golden China Resources Corporation (listed on the Toronto Stock Exchange and ASX).

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

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

Leslie Sidney George Emery (Managing Director)

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

In addition to Lynas Corporation Limited, Mr Emery has previously been a director of a number of listed Australian resource companies, including Herald Resources Limited (as Managing Director), Sundowner Minerals NL, Roebuck Resources NL and Acclaim Exploration NL. From 1975-1981 he was employed by the Western Australian Department of Mines (now the Department of Industry and Resources). Prior to this he was employed by Western Mining Corporation Limited.

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

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

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

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

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of Bonaparte Diamond Mines NL, Key Petroleum Limited, Minemakers Limited and South Boulder Mines Limited.

Directors' Report continued

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 Resources Limited, a listed Australian uranium company.

Former Directorships

Mr Horan was chairman of ASX listed Michelago Limited from 1995 to December 2006 when the company formed a business combination with Golden China Resources Corporation (ASX/TSX). Other than that he has not held any former directorships of public listed companies in the past three years.

Mr Emery, Mr Williams and Dr Dunnet have not held any former directorships of public listed companies in the last three years.

COMPANY SECRETARY

Dennis William Wilkins, B.Bus, AICD, ACIS

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

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

| | Ordinary Shares | Options over Ordinary Shares |
|----------------------------|--------------------|------------------------------------|
| John Patrick Horan | 560,000 | 925,000 |
| Leslie Sidney George Emery | 1,485,000 | 4,000,000 |
| Dennis William Wilkins | 104,193 | 1,500,000 |
| Douglas Dunnet | 178,967 | 300,000 |

PRINCIPAL ACTIVITIES

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

There was no significant change in the nature of the 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

Group Overview

During the year, Marengo Mining Limited ("the company") undertook mineral exploration in Papua New Guinea ("PNG").

On 25 August 2006 the company completed the acquisition of the remaining 50% of its key Yandera Copper-Molybdenum Project in the Madang Province of PNG.

The Yandera Project, which also has potential for epithermal gold mineralisation, has been the company's focus since April 2005.

Since entering the Yandera Project, the company has completed some 10,000 metres of diamond drilling and digitised the historical exploration database, which includes over 33,000 metres of diamond drilling records.

Directors' Report continued

In October 2006, international mining consultancy group, Golder Associates ("Golder"), provided the company with a resource estimate for the Yandera Central Porphyry System, prepared in accordance with JORC guidelines. This resource was reported as 371 Mt @ 0.48% Copper Equivalent (Indicated and Inferred).

In May 2007 a revised resource estimate, based on additional drilling data, was provided by Golder and increased the resource base by 78% to 660 Mt @ 0.48% Copper Equivalent (comprising an Indicated Resource of 163 Mt @0.49% Copper Equivalent and an Inferred Resource of 497 Mt @ 0.48% Copper Equivalent).

Also in October 2006, the company commenced a conceptual mining study on the Yandera Project, the results of which have recently been released and have provided sufficient encouragement for the company to commence a bankable feasibility study on the Project.

In addition, during the year, the company undertook further field activities, although this was limited to rock chip sampling and field mapping.

During the year the company did not undertake any exploration within Australia.

Finance Review

The Group began the financial year with a cash reserve of \$6,554,474. During the year the company raised an additional \$12.3 million by way of a placement of 49,168,500 ordinary shares at 25 cents per share. Funds were used to actively advance the Group's projects located in Papua New Guinea.

During the year total exploration expenditure incurred by the Group amounted to \$13,405,390. In line with the Group's accounting policies, all exploration expenditure other than acquisition costs, are written off as incurred resulting in a write off of \$6,355,390 during the year. Net administration expenditure incurred amounted to \$1,526,028. This has resulted in an operating loss after income tax for the year ended 30 June 2007 of \$7,881,418 (2006: \$2,766,292).

At 30 June 2007 surplus funds available totalled \$7,171,035.

Operating Results for the Year

Summarised operating results are as follows:

| | 2007 | |
|--|----------|--------------|
| | Revenues | Results |
| | \$ | \$ |
| <i>Geographic segments</i> | | |
| Australia | 395,914 | (15,241,576) |
| Papua New Guinea | - | (6,648,067) |
| Consolidation eliminations | - | 14,008,225 |
| Consolidated entity revenues and loss from ordinary activities before income tax expense | 395,914 | (7,881,418) |

Shareholder Returns

| | 2007 | 2006 |
|------------------------------|-------|-------|
| Basic loss per share (cents) | (7.6) | (5.1) |

Risk Management

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

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

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

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

Directors' Report continued

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- During the year the company raised an additional \$12.3 million by way of a placement of 49,168,500 ordinary shares at 25 cents per share.
- On 25 August 2006 Marengo Mining (PNG) Limited, a 100% owned subsidiary of the company, acquired 100% of the issued share capital of Belvedere Limited, a private company incorporated in Papua New Guinea. Consideration for this acquisition was \$3 million cash, the issue of 12 million ordinary shares in the company and the issue of 6 million listed options.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 26, 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 Company has announced its intention to begin a bankable feasibility study on the Yandera copper project. The company will continue to explore areas adjacent to the existing project area given the prospectivity. In a broader sense the company will review opportunities in precious and base metals in PNG.

The company has mandated a well-regarded Canadian broker to assist with raising in the order of A\$30 million and to assist the company to list on the Toronto Stock Exchange. This capital raising will facilitate the work required to complete the Yandera copper project bankable feasibility study.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

REMUNERATION REPORT

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

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

A Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Marengo Mining Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the 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:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the 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.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

Directors' Report continued

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

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

Performance based remuneration

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

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

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors and executives performance. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer to note 18 of the financial statements.

B Details of remuneration (audited)

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

The key management personnel of Marengo Mining Limited and the Group include the directors as per pages 3 and 4 above and the following executive officer who has authority and responsibility for planning, directing and controlling the activities of the Group:

- Peter Dendle – *Project Manager*

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.

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

| | Short-Term | | Post Employment | | Share-based | Total |
|--|---------------|--------------|-----------------|---------------------|---------------------|---------|
| | Salary & Fees | Non Monetary | Superannuation | Retirement benefits | Payments Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | | |
| John Patrick Horan | | | | | | |
| 2007 | 45,000 | 5,068 | - | - | - | 50,068 |
| 2006 | 33,333 | 1,473 | - | - | - | 34,806 |
| Leslie Sidney George Emery | | | | | | |
| 2007 | 218,000 | 27,469 | 25,167 | - | - | 270,636 |
| 2006 | 145,000 | 1,473 | 14,450 | - | - | 160,923 |
| Dennis William Wilkins | | | | | | |
| 2007 | 98,123 | 5,068 | 1,837 | - | - | 105,028 |
| 2006 | 87,333 | 1,473 | 2,100 | - | - | 90,906 |
| Douglas Dunnet | | | | | | |
| 2007 | 35,000 | 5,068 | 3,150 | - | - | 43,218 |
| 2006 | 23,333 | 1,473 | 2,100 | - | - | 26,906 |
| Ronald Smit (resigned 30 June 2006) | | | | | | |
| 2006 | 150,409 | 1,473 | 12,745 | - | - | 164,627 |
| Other key management personnel | | | | | | |
| Peter Dendle | | | | | | |
| 2007 | 112,500 | - | 13,500 | - | - | 126,000 |
| 2006 | 68,521 | - | 6,167 | - | 90,150 | 164,838 |
| Total key management personnel compensation | | | | | | |
| 2007 | 508,623 | 42,673 | 43,654 | - | - | 594,950 |
| 2006 | 507,929 | 7,365 | 37,562 | - | 90,150 | 643,006 |

Directors' Report continued

C Service agreements (audited)

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

John Horan, Chairman:

- Term of agreement – expiring on 1 September 2009.
- A fee for the year ended 30 June 2007 of \$45,000, to be reviewed annually by the board.
- Payment of termination benefit on early termination by the company, other than for gross misconduct, equal to the fee for the remaining term of the agreement.

Leslie Emery, Managing Director:

- Term of agreement - 4 years commencing 13 November 2003.
- Base annual salary of \$247,000 plus a superannuation contribution of \$29,500 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.

Dennis Wilkins, Director/Company Secretary:

- Term of agreement – 12 months commencing 1 January 2007.
- Directors fees, inclusive of statutory superannuation, for the year ended 30 June 2007 of \$35,000, to be reviewed annually by the board. In addition, Mr Wilkins' firm, DWCorporate, is engaged to provide book-keeping, accounting and company secretarial services. A fixed fee of \$32,000 was paid during the period 1 July 2006 to 31 December 2006. From 1 January 2007 the services have been billed at an hourly rate with the fee totalling \$31,123 for the six months to 30 June 2007.

D Share-based compensation (audited)

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Marengo Mining Limited to increase goal congruence between executives, directors and shareholders. There were no options granted to or vesting with key management personnel during the year.

E Additional information - unaudited

Performance income as a proportion of total compensation

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

DIRECTORS' MEETINGS

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

| | Directors Meetings | | Audit Committee Meetings | |
|----------------------------|--------------------|---|--------------------------|---|
| | A | B | A | B |
| John Patrick Horan | 8 | 8 | 2 | 2 |
| Leslie Sidney George Emery | 8 | 8 | * | * |
| Dennis William Wilkins | 8 | 8 | * | * |
| Douglas Dunnet | 8 | 8 | 2 | 2 |

Notes

A - Number of meetings attended.

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

* - Not a member of the Audit Committee

Directors' Report continued

SHARES UNDER OPTION

At the date of this report there are 62,857,551 unissued ordinary shares in respect of which options are outstanding.

| | Number of options |
|---|--------------------------|
| Balance at the beginning of the year | 57,612,574 |
| Movements of share options during the year | |
| Issued, exercisable at 20 cents, on or before 28 February 2008 | 6,000,000 |
| Issued, exercisable at 30 cents, on or before 30 November 2008 | 100,000 |
| Options exercised (20 cents, 28 February 2008) | (30,000) |
| Total number of options outstanding as at 30 June 2007 | 63,682,574 |
| Options exercised subsequent to year end (20 cents, 28 February 2008) | (825,023) |
| Total number of options outstanding at the date of this report | 62,857,551 |

The balance is comprised of the following:

| Expiry date | Exercise price (cents) | Number of options |
|---|-------------------------------|--------------------------|
| 28 Feb 2008 | 20.0 | 47,557,551 |
| 30 Nov 2008 | 20.0 | 2,900,002 |
| 30 Nov 2008 | 25.0 | 4,399,999 |
| 30 Nov 2008 | 30.0 | 3,499,999 |
| 30 Nov 2008 | 40.0 | 4,000,000 |
| 31 Dec 2009 | 20.0 | 170,000 |
| 31 Dec 2010 | 25.0 | 170,000 |
| 31 Dec 2011 | 30.0 | 160,000 |
| Total number of options outstanding at the date of this report | | 62,857,551 |

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company paid premiums insuring all the directors of Marengo Mining Limited against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the Corporations Act 2001,

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

The total amount of insurance contract premiums paid is \$20,272.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Stantons International or associated entities.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

| | 2007 | 2006 |
|-------------------------|-------------|-------------|
| | \$ | \$ |
| Tax compliance services | 331 | 2,034 |

Directors' Report continued

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 11.

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Leslie Sidney George Emery', is written over a thin red vertical line.

Leslie Sidney George Emery
Managing Director

Perth, 10 August 2007

10 August 2007

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

Dear Directors

RE: MARENGO MINING LIMITED

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

As Audit Director for the audit of the financial statements of Marengo Mining Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

Corporate Governance Statement

The Board of Directors

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

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

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act 2001, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

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

Role of the Board

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

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

Appointments to Other Boards

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

Independent Professional Advice

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the company.

ASX Principles of Good Corporate Governance

The board has reviewed its current practices in light of the ASX Principles of Good Corporate Governance and Best Practice Guidelines with a view to making amendments where applicable after considering the company's size and the resources it has available.

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

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

Corporate Governance Statement continued

| | ASX Principle | Status | Reference/comment |
|--|--|----------------|---|
| Principle 1: Lay solid foundations for management and oversight | | | |
| 1.1 | Formalise and disclose the functions reserved to the board and those delegated to management | N/A | <p>The company has not adopted this recommendation to formalise and disclose the functions reserved to the board and those delegated to management. The company has a small board, comprising four directors, two of whom are non-executive (including the Chairman).</p> <p>The company considers the expense of sourcing additional directors at this stage of its development is unwarranted. The roles and functions within the company must remain flexible in order for it to best function within its level of available resources.</p> <p>The full board currently meets every month. In addition, strategy meetings and any extraordinary meetings are held at such other times as may be necessary to address any specific significant matters that may arise.</p> <p>The board believes the alignment of the interests of directors with those of shareholders as being the most efficient way to ensure shareholders interests are protected.</p> |
| Principle 2: Structure the board to add value | | | |
| 2.1 | A majority of board members should be independent directors | N/A | Given the company's background, the nature and size of its business and the current stage of its development, the board comprises four directors, two of whom are non-executive (including the independent Chairman). The board believes that this is both appropriate and acceptable at this stage of the company's development. |
| 2.2 | The chairperson should be an independent director | A | |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual | A | The positions of Chairman and Managing Director are held by separate persons. |
| 2.4 | The board should establish a nomination committee | N/A | The board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the board carries out the process of determining the need for, screening and appointing new directors. In view of the size and resources available to the company, it is not considered that a separate nomination committee would add any substance to this process. |
| 2.5 | Provide the information indicated in Guide to reporting on Principle 2 | A (in part) | The skills and experience of directors are set out in the company's Annual Report and on its website. |
| Principle 3: Promote ethical and responsible decision-making | | | |
| 3.1 | Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: | A | The company has formulated a Code of Conduct which can be viewed on the company's website. |
| | 3.1.1 the practices necessary to maintain confidence in the company's integrity | | |
| | 3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices | | |
| <p>A = Adopted N/A = Not adopted</p> | | | |

Corporate Governance Statement continued

| | ASX Principle | Status | Reference/comment |
|---------------------|---|----------------|--|
| Principle 3: | Promote ethical and responsible decision-making | | |
| (continued) | | | |
| 3.2 | Disclose the policy concerning trading in company securities by directors, officers and employees | A | The company has formulated a securities trading policy which can be viewed on its website. |
| 3.3 | Provide the information indicated in Guide to Reporting on Principle 3 | A | The company has established an audit committee which comprises two non-executive directors. The charter for this committee is disclosed on the company's website. Sourcing alternative or additional directors to strictly comply with this Principle is considered expensive with costs outweighing potential benefits. In addition, the board as a whole addresses the governance aspects of the full scope of the company's activities to ensure that it adheres to appropriate ethical standards. All matters which might properly be dealt with by special committees are subject to regular scrutiny at full board Meetings. |
| Principle 4: | Safeguard integrity in financial reporting | | |
| 4.1 | Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards | A | |
| 4.2 | The board should establish an audit committee | A | |
| 4.3 | Structure the audit committee so that it consists of: | A (in part) | |
| | • Only non-executive directors | ✓ | |
| | • A majority of independent directors | ✓ | |
| | • An independent chairperson who is not the chairperson of the board | ✓ | |
| | • At least three members | ✗ | The company only has two non-executive directors. |
| 4.4 | The audit committee should have a formal charter | A | |
| 4.5 | Provide the information indicated in Guide to reporting on Principle 4 | A | |
| Principle 5: | Make timely and balanced disclosure | | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance | N/A | The company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience. |
| 5.2 | Provide the information indicated in Guide to Reporting on Principle 5 | N/A | The board receives monthly reports on the status of the company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each board meeting. |
| | A = Adopted | | |
| | N/A = Not adopted | | |

Corporate Governance Statement continued

| | ASX Principle | Status | Reference/comment |
|---------------------|---|--------|---|
| Principle 6: | Respect the rights of shareholders | | |
| 6.1 | Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings | A | In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the company website and the distribution of specific releases covering major transactions or events. |
| 6.2 | Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report | A | Shareholders are encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The company's auditors attend all shareholders' meetings. |
| Principle 7: | Recognise and manage risk | | |
| 7.1 | The board or appropriate board committee should establish policies on risk oversight and management | N/A | While the company does not have formalised policies on risk management the board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors. |
| | | | Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations • sovereign risk |
| 7.2 | The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the polices adopted by the Board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects | A | |
| 7.3 | Provide information indicated in Guide to Reporting on Principle 7 | N/A | |

A = Adopted
N/A = Not adopted

Corporate Governance Statement continued

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

A = Adopted
N/A = Not adopted

Income Statements

| YEAR ENDED 30 JUNE 2007 | Notes | Consolidated | | Parent Entity | |
|--|-------|--------------------|-------------|--------------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| REVENUE FROM CONTINUING OPERATIONS | 4 | 395,914 | 285,898 | 395,914 | 285,898 |
| EXPENDITURE | | | | | |
| Depreciation expense | 5 | (46,788) | (22,780) | (25,453) | (14,692) |
| Salaries and employee benefits expense | | (560,166) | (386,312) | (540,240) | (383,963) |
| Exploration expenditure | 5 | (6,355,390) | (1,908,807) | (104,966) | (286,102) |
| Doubtful debts expense | 5 | - | - | (7,037,583) | (1,463,611) |
| Corporate expenditure | | (316,324) | (166,556) | (296,286) | (166,002) |
| Occupancy expenditure | | (73,067) | (59,600) | (67,003) | (59,600) |
| Insurance expenditure | | (70,918) | (31,816) | (59,961) | (25,436) |
| Administration costs | | (279,845) | (129,240) | (181,052) | (112,155) |
| Share based payment expense | 29 | (10,220) | (100,739) | (10,220) | (100,739) |
| Other expenses | | (564,614) | (246,340) | (344,084) | (206,703) |
| LOSS BEFORE INCOME TAX | | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| INCOME TAX BENEFIT / (EXPENSE) | 6 | - | - | - | - |
| NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF MARENGO MINING LIMITED | | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| Basic and diluted loss per share for loss attributable to the ordinary equity holders of the company (cents per share) | 28 | (7.6) | (5.1) | | |

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

Balance Sheets

AT 30 JUNE 2007

| | Notes | Consolidated | | Parent Entity | |
|--------------------------------------|-------|---------------------|-------------|---------------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 7 | 7,171,035 | 6,554,474 | 6,920,815 | 6,460,383 |
| Trade and other receivables | 8 | 461,688 | 84,112 | 129,159 | 57,018 |
| TOTAL CURRENT ASSETS | | 7,632,723 | 6,638,586 | 7,049,974 | 6,517,401 |
| NON-CURRENT ASSETS | | | | | |
| Other financial assets | 9 | - | 50,000 | 7,198,094 | 144,086 |
| Plant and equipment | 10 | 236,534 | 188,068 | 145,677 | 86,485 |
| Mining properties | 11 | 6,701,550 | - | - | - |
| TOTAL NON-CURRENT ASSETS | | 6,938,084 | 238,068 | 7,343,771 | 230,571 |
| TOTAL ASSETS | | 14,570,807 | 6,876,654 | 14,393,745 | 6,747,972 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 12 | 417,244 | 572,740 | 250,475 | 211,703 |
| Provisions | 13 | 154,044 | 70,784 | 143,749 | 70,784 |
| TOTAL CURRENT LIABILITIES | | 571,288 | 643,524 | 394,224 | 282,487 |
| NON-CURRENT LIABILITIES | | | | | |
| Payables | 14 | - | 3,750 | - | 3,750 |
| TOTAL NON-CURRENT LIABILITIES | | - | 3,750 | - | 3,750 |
| TOTAL LIABILITIES | | 571,288 | 647,274 | 394,224 | 286,237 |
| NET ASSETS | | 13,999,519 | 6,229,380 | 13,999,521 | 6,461,735 |
| EQUITY | | | | | |
| Contributed equity | 15 | 26,875,224 | 11,766,724 | 26,875,224 | 11,766,724 |
| Reserves | 16(a) | 764,964 | 221,907 | 929,547 | 229,327 |
| Accumulated losses | 16(b) | (13,640,669) | (5,759,251) | (13,805,250) | (5,534,316) |
| TOTAL EQUITY | | 13,999,519 | 6,229,380 | 13,999,521 | 6,461,735 |

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

Statements of Changes in Equity

| YEAR ENDED 30 JUNE 2007 | Notes | Consolidated | | Parent Entity | |
|--|-------|--------------------|-------------|--------------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR | | 6,229,380 | 1,478,590 | 6,461,735 | 1,470,833 |
| Exchange differences on translation of foreign operations | 16 | (157,163) | (6,925) | - | - |
| NET INCOME RECOGNISED DIRECTLY IN EQUITY LOSS FOR THE YEAR | | (157,163) | (6,925) | - | - |
| TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED | | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Shares issued during the year | 15 | 15,658,125 | 7,811,701 | 15,658,125 | 7,811,701 |
| Transaction costs | 15 | (549,625) | (482,935) | (549,625) | (482,935) |
| Employees and consultants share options | 16 | 10,220 | 195,241 | 10,220 | 195,241 |
| Options issued as part consideration for the acquisition of Belvedere Limited | 16 | 690,000 | - | 690,000 | - |
| | | 15,808,720 | 7,524,007 | 15,808,720 | 7,524,007 |
| TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR | | 13,999,519 | 6,229,380 | 13,999,521 | 6,461,735 |

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

Statements of Cash Flows

| YEAR ENDED 30 JUNE 2007 | Notes | Consolidated | | Parent Entity | |
|---|-------|--------------------|-------------|---------------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Payments to suppliers and employees | | (1,755,924) | (986,615) | (1,400,290) | (914,332) |
| Interest received | | 377,749 | 285,898 | 377,749 | 285,898 |
| Expenditure on mining interests | | (6,627,910) | (1,480,259) | (204,029) | (294,516) |
| NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES | 27(a) | (8,006,085) | (2,180,976) | (1,226,570) | (922,950) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payments for plant and equipment | | (111,140) | (174,611) | (84,645) | (64,522) |
| Payments for other financial assets | | - | (50,000) | - | (50,000) |
| Payment for purchase of subsidiary, net of cash acquired | | (3,000,000) | - | - | - |
| Advances to related parties | | - | - | (9,976,853) | (1,410,299) |
| NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES | | (3,111,140) | (224,611) | (10,061,498) | (1,524,821) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issues of ordinary shares | | 12,205,625 | 7,701,701 | 12,205,625 | 7,701,701 |
| Payment of share issue costs | | (457,125) | (278,435) | (457,125) | (278,435) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | 11,748,500 | 7,423,266 | 11,748,500 | 7,423,266 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | |
| Cash and cash equivalents at the beginning of the financial year | | 631,275 | 5,017,679 | 460,432 | 4,975,495 |
| Effects of exchange rate changes on cash and cash equivalents | | (14,714) | (8,391) | - | - |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 7 | 7,171,035 | 6,554,474 | 6,920,815 | 6,460,383 |

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

Notes to the Financial Statements

30 JUNE 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Marengo Mining Limited as an individual entity and the consolidated entity consisting of Marengo Mining Limited and its subsidiaries.

(a) Basis of preparation

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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Marengo Mining Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in *AASB 132 Financial Instruments: Disclosure and Presentation*.

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 2007 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 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 heading. Details of the joint ventures are set out in note 25.

Notes to the Financial Statements continued

30 JUNE 2007

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(iii) Group companies

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

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

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

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

(e) Revenue recognition

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

(f) Income tax

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

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

Notes to the Financial Statements continued

30 JUNE 2007

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

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

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

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

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

(g) Leases

Leases of property, plant and equipment where the 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). 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 (refer to note 23). 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.

Notes to the Financial Statements continued

30 JUNE 2007

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

(l) Investments and other financial assets

Classification

The 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.

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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 balance sheet date.

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.

Notes to the Financial Statements continued

30 JUNE 2007

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

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

Fair value

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

Impairment

The 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.

(m) Fair value estimation

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

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

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

(n) Plant and equipment

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

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

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives. The rates vary between 20% and 40% per annum.

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

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

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

(o) Exploration and evaluation costs

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

Notes to the Financial Statements continued

30 JUNE 2007

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

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

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

(p) Trade and other payables

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

(q) Employee benefits

(i) Wages and salaries, annual leave and other employee benefits

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

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

(ii) Share-based payments

The 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 29.

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.

(r) Contributed equity

Ordinary shares are classified as equity.

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

(s) Earnings per share

(i) Basic earnings per share

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

Notes to the Financial Statements continued

30 JUNE 2007

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

(ii) Diluted earnings per share

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

(t) Goods and Services Tax (GST)

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

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

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

(u) Rounding of amounts

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

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

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

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

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

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

(w) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 29.

Exploration and evaluation costs

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

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

Notes to the Financial Statements continued

30 JUNE 2007

2. 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 | |
|---|-------------|-------------|------------------|-------------|--------------|-------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment revenue | | | | | | |
| Other revenue | 395,914 | 285,898 | - | - | 395,914 | 285,898 |
| Total segment revenue | 395,914 | 285,898 | - | - | 395,914 | 285,898 |
| Intersegment elimination | | | | | - | - |
| Consolidated revenue | | | | | 395,914 | 285,898 |
| Segment result | | | | | | |
| Segment result | (8,270,934) | (2,533,105) | (6,648,067) | (1,696,795) | (14,919,001) | (4,229,900) |
| Intersegment elimination | | | | | 7,037,583 | 1,463,608 |
| Loss before income tax | | | | | (7,881,418) | (2,766,292) |
| Income tax expense | | | | | - | - |
| Loss for the year | | | | | (7,881,418) | (2,766,292) |
| Segment assets and liabilities | | | | | | |
| Segment assets | 14,393,745 | 6,747,972 | 7,375,156 | 222,770 | 21,768,901 | 6,970,742 |
| Intersegment elimination | | | | | (7,198,094) | (94,088) |
| Total assets | | | | | 14,570,807 | 6,876,654 |
| Segment liabilities | 394,224 | 286,237 | 15,113,109 | 2,287,895 | 15,507,333 | 2,574,132 |
| Intersegment elimination | | | | | (14,936,045) | (1,926,858) |
| Total liabilities | | | | | 571,288 | 647,274 |
| Other segment information | | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 84,645 | 114,522 | 6,728,045 | 110,089 | 6,812,690 | 224,611 |
| Depreciation expense | 25,453 | 14,692 | 21,335 | 8,088 | 46,788 | 22,780 |
| Doubtful debts expense | 7,037,583 | 1,463,611 | - | - | 7,037,583 | 1,463,633 |
| Intersegment elimination | | | | | (7,037,583) | (1,463,633) |
| Total doubtful debts expense | | | | | - | - |

Notes to the Financial Statements continued

30 JUNE 2007

3. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

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

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

| 2007 | Floating interest rate | Fixed interest rate maturing in: | | | Non interest bearing | Total carrying amount as per the balance sheet | Weighted average effective interest rate |
|------------------------------|------------------------|----------------------------------|--------------|-------------------|----------------------|--|--|
| | | 1 year or less | 1 to 5 years | More than 5 years | | | |
| Financial instrument | \$ | \$ | \$ | \$ | \$ | \$ | % |
| <i>Financial assets</i> | | | | | | | |
| Cash and cash equivalents | 602,027 | 6,566,120 | - | - | 2,888 | 7,171,035 | 6.5 |
| Trade and other receivables | - | 18,165 | - | - | 443,523 | 461,688 | - |
| Total financial assets | 602,027 | 6,584,285 | - | - | 446,411 | 7,632,723 | |
| <i>Financial liabilities</i> | | | | | | | |
| Trade creditors | - | - | - | - | (244,404) | (244,404) | - |
| Other creditors and accruals | - | - | - | - | (172,840) | (172,840) | - |
| Total financial liabilities | - | - | - | - | (417,244) | (417,244) | |

| 2006 | Floating interest rate | Fixed interest rate maturing in: | | | Non interest bearing | Total carrying amount as per the balance sheet | Weighted average effective interest rate |
|------------------------------|------------------------|----------------------------------|--------------|-------------------|----------------------|--|--|
| | | 1 year or less | 1 to 5 years | More than 5 years | | | |
| Financial instrument | \$ | \$ | \$ | \$ | \$ | \$ | % |
| <i>Financial assets</i> | | | | | | | |
| Cash and cash equivalents | 3,407,393 | 3,146,581 | - | - | 500 | 6,554,474 | 5.5 |
| Trade and other receivables | - | - | - | - | 84,112 | 84,112 | - |
| Total financial assets | 3,407,393 | 3,146,581 | - | - | 84,612 | 6,638,586 | |
| <i>Financial liabilities</i> | | | | | | | |
| Trade creditors | - | - | - | - | (172,930) | (172,930) | - |
| Other creditors and accruals | - | - | - | - | (403,560) | (403,560) | - |
| Total financial liabilities | - | - | - | - | (576,490) | (576,490) | |

(b) Net fair values

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

(c) Credit risk exposures

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

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

Notes to the Financial Statements continued

30 JUNE 2007

3. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Foreign currency risk

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

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

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

| | Consolidated | | Parent Entity | |
|---|--------------------|-------------|--------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| 4. REVENUE | | | | |
| From continuing operations | | | | |
| <i>Other revenue</i> | | | | |
| Interest | 395,914 | 285,898 | 395,914 | 285,898 |
| 5. EXPENSES | | | | |
| Loss before income tax includes the following specific expenses: | | | | |
| Depreciation of plant and equipment | 46,788 | 22,780 | 25,453 | 14,692 |
| Doubtful debts - controlled entities | - | - | 7,037,583 | 1,463,611 |
| Exploration expenditure | 6,355,390 | 1,908,807 | 104,966 | 286,102 |
| 6. INCOME TAX | | | | |
| (a) Income tax expense | | | | |
| Current tax | - | - | - | - |
| Deferred tax | - | - | - | - |
| Adjustments for current tax of prior years | - | - | - | - |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | | | |
| Loss from continuing operations before income tax expense | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| Prima facie tax benefit at the Australian tax rate of 30% (2006: 30%) | (2,364,425) | (829,888) | (2,481,280) | (759,931) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Share-based payments | 3,066 | 30,222 | 3,066 | 30,222 |
| Sundry items | 68,351 | 3,034 | 5,735 | 2,854 |
| | (2,293,008) | (796,632) | (2,472,479) | (726,855) |
| Movements in unrecognised temporary differences | (47,838) | (61,780) | 2,031,725 | 377,302 |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | 2,340,846 | 858,412 | 440,754 | 349,553 |
| Income tax expense | - | - | - | - |

Notes to the Financial Statements continued

| 30 JUNE 2007 | Notes | Consolidated | | Parent Entity | |
|---|-------|------------------|------------------|------------------|------------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| 6. INCOME TAX (cont'd) | | | | | |
| (c) Unrecognised temporary differences | | | | | |
| Deferred Tax Assets (at 30%) | | | | | |
| <i>On Income Tax Account</i> | | | | | |
| Capital raising costs | | 249,570 | 186,295 | 249,570 | 186,295 |
| Provision for diminution | | - | - | 2,626,649 | 515,375 |
| Accruals | | 39,132 | 10,335 | 10,508 | 10,335 |
| Provision for employee benefits | | 46,213 | 21,235 | 43,125 | 21,235 |
| Carry forward tax losses | | 4,044,876 | 1,704,030 | 1,562,109 | 1,121,355 |
| | | 4,379,791 | 1,921,895 | 4,491,961 | 1,854,595 |
| Deferred Tax Liabilities (at 30%) | | | | | |
| | | - | - | - | - |
| 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS | | | | | |
| Cash at bank and in hand | | 604,915 | 121,420 | 415,460 | 27,329 |
| Short-term deposits | | 6,566,120 | 6,433,054 | 6,505,355 | 6,433,054 |
| Cash and cash equivalents as shown in the balance sheet and the statement of cash flows | | 7,171,035 | 6,554,474 | 6,920,815 | 6,460,383 |
| Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. | | | | | |
| Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. | | | | | |
| 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES | | | | | |
| Sundry receivables | | 76,202 | 21,624 | 45,171 | 3,770 |
| Prepayments | | 385,486 | 62,488 | 83,988 | 53,248 |
| | | 461,688 | 84,112 | 129,159 | 57,018 |
| 9. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS | | | | | |
| Shares in subsidiary – at cost | 24 | - | - | 1 | 1 |
| Deposit on acquisition of subsidiary | | - | 50,000 | - | 50,000 |
| Loans to controlled entities | 22 | - | - | 15,953,591 | 1,812,001 |
| Provision for diminution | 22 | - | - | (8,755,498) | (1,717,916) |
| | | - | 50,000 | 7,198,094 | 144,086 |
| 10. NON-CURRENT ASSETS - PLANT AND EQUIPMENT | | | | | |
| Plant and equipment | | | | | |
| Cost | | 321,152 | 229,322 | 203,878 | 119,233 |
| Accumulated depreciation | | (84,618) | (41,254) | (58,201) | (32,748) |
| Net book amount | | 236,534 | 188,068 | 145,677 | 86,485 |
| Plant and equipment | | | | | |
| Opening net book amount | | 188,068 | 36,655 | 86,485 | 36,655 |
| Exchange differences | | (15,886) | (418) | - | - |
| Additions | | 111,140 | 174,611 | 84,645 | 64,522 |
| Depreciation charge | | (46,788) | (22,780) | (25,453) | (14,692) |
| Closing net book amount | | 236,534 | 188,068 | 145,677 | 86,485 |

Notes to the Financial Statements continued

| 30 JUNE 2007 | Notes | Consolidated | | Parent Entity | |
|---|--------------|--------------------|-------------------|------------------|------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| 11. NON-CURRENT ASSETS – MINING PROPERTIES | | | | | |
| Tenement acquisition costs carried forward in respect of mining areas of interest | | | | | |
| Opening net book amount | | - | - | - | - |
| Incurring during the year | | 7,050,000 | - | - | - |
| Exchange differences | | (348,450) | - | - | - |
| Closing net book amount | | 6,701,550 | - | - | - |
| The ultimate recoupment of tenement acquisition costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not being charged pending the commencement of production. | | | | | |
| 12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES | | | | | |
| Trade payables | | 244,404 | 172,930 | 173,049 | 161,643 |
| Other payables and accruals | | 172,840 | 399,810 | 77,426 | 50,060 |
| | | 417,244 | 572,740 | 250,475 | 211,703 |
| 13. CURRENT LIABILITIES - PROVISIONS | | | | | |
| Employee benefits | | 154,044 | 70,784 | 143,749 | 70,784 |
| 14. NON-CURRENT LIABILITIES - PAYABLES | | | | | |
| Other payables | | - | 3,750 | - | 3,750 |
| 15. CONTRIBUTED EQUITY | | | | | |
| (a) Share capital | | | | | |
| | | 2007 | | 2006 | |
| | | Number of shares | \$ | Number of shares | \$ |
| Ordinary shares fully paid | 15(b), 15(d) | 126,880,719 | 26,875,224 | 65,682,218 | 11,766,724 |
| Total contributed equity | | 126,880,719 | 26,875,224 | 65,682,218 | 11,766,724 |
| (b) Movements in ordinary share capital | | | | | |
| | | 2007 | | 2006 | |
| | | Number of shares | \$ | Number of shares | \$ |
| Beginning of the financial year | | 65,682,218 | 11,766,724 | 33,900,377 | 4,437,958 |
| Issued during the year: | | | | | |
| – Issued as part consideration on acquisition of subsidiary @ 28 cents per share | | 12,000,000 | 3,360,000 | - | - |
| – Issued for cash @ 15 cents per share | | - | - | 3,333,334 | 500,000 |
| – Issued for cash @ 25 cents per share | | 49,168,501 | 12,292,125 | 24,000,001 | 6,000,000 |
| – Issued for cash @ 30 cents per share | | - | - | 4,000,000 | 1,200,000 |
| – Issued to satisfy underwriting fee @ 25 cents per share | | - | - | 440,000 | 110,000 |
| – Issued on conversion of options (20 cents per share) | | 30,000 | 6,000 | 8,506 | 1,701 |
| Less: Transaction costs | | - | (549,625) | - | (482,935) |
| End of the financial year | | 126,880,719 | 26,875,224 | 65,682,218 | 11,766,724 |

Notes to the Financial Statements continued

30 JUNE 2007

15. CONTRIBUTED EQUITY (cont'd)

(c) Movements in options on issue

| | Number of options | |
|---|-------------------|------------|
| | 2007 | 2006 |
| Beginning of the financial year | 57,612,574 | 24,347,746 |
| Issued during the year: | | |
| – Exercisable at 20 cents, on or before 28 Feb 2008 | 6,000,000 | 28,673,334 |
| – Exercisable at 25 cents, on or before 30 Nov 2008 | - | 600,000 |
| – Exercisable at 30 cents, on or before 30 Nov 2008 | 100,000 | - |
| – Exercisable at 40 cents, on or before 30 Nov 2008 | - | 4,000,000 |
| Less: Options exercised (20 cents, 28 Feb 2008) | (30,000) | (8,506) |
| End of the financial year | 63,682,574 | 57,612,574 |

(d) Ordinary shares

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

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

| | Consolidated | | Parent Entity | |
|--|--------------|------|---------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |

16. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

| | | | | |
|--------------------------------------|-----------|---------|---------|---------|
| Foreign currency translation reserve | (164,583) | (7,420) | - | - |
| Share-based payments reserve | 929,547 | 229,327 | 929,547 | 229,327 |
| | 764,964 | 221,907 | 929,547 | 229,327 |

Movements:

Foreign currency translation reserve

| | | | | |
|--|-----------|---------|---|---|
| Balance at beginning of year | (7,420) | (495) | - | - |
| Currency translation differences arising during the year | (157,163) | (6,925) | - | - |
| Balance at end of year | (164,583) | (7,420) | - | - |

Share-based payments reserve

| | | | | |
|------------------------------|---------|---------|---------|---------|
| Balance at beginning of year | 229,327 | 34,086 | 229,327 | 34,086 |
| Option expense | 700,220 | 195,241 | 700,220 | 195,241 |
| Balance at end of year | 929,547 | 229,327 | 929,547 | 229,327 |

(b) Accumulated losses

| | | | | |
|------------------------------|--------------|-------------|--------------|-------------|
| Balance at beginning of year | (5,759,251) | (2,992,959) | (5,534,316) | (3,001,211) |
| Net loss for the year | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| Balance at end of year | (13,640,669) | (5,759,251) | (13,805,250) | (5,534,316) |

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share-based payments reserve

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

Notes to the Financial Statements continued

30 JUNE 2007

17. DIVIDENDS

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

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel

(i) Directors

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

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

(ii) Other Key Management Personnel

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

| | |
|--------------|-----------------|
| Peter Dendle | Project Manager |
|--------------|-----------------|

(b) Key management personnel compensation

| | Consolidated | | Parent Entity | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Short-term benefits | 551,296 | 515,294 | 551,296 | 515,294 |
| Post employment benefits | 43,654 | 37,562 | 43,654 | 37,562 |
| Other long-term benefits | - | - | - | - |
| Termination benefits | - | - | - | - |
| Share-based payments | - | 90,150 | - | 90,150 |
| | 594,950 | 643,006 | 594,950 | 643,006 |

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 6 to 8.

(c) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 8.

(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:

| 2007 | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|--|------------------------------|-------------------------|-----------|---------------|----------------------------|------------------------|----------|
| <i>Directors of Marengo Mining Limited</i> | | | | | | | |
| John Patrick Horan | 925,000 | - | - | - | 925,000 | 925,000 | - |
| Leslie Sidney George Emery | 4,000,000 | - | - | - | 4,000,000 | 4,000,000 | - |
| Dennis William Wilkins | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 | - |
| Douglas Dunnet | 300,000 | - | - | - | 300,000 | 300,000 | - |
| <i>Other key management personnel of the Group</i> | | | | | | | |
| Peter Dendle | 500,000 | - | - | - | 500,000 | 500,000 | - |

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

Notes to the Financial Statements continued

30 JUNE 2007

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

| 2006 | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|--|------------------------------|-------------------------|-----------|---------------|----------------------------|------------------------|----------|
| <i>Directors of Marengo Mining Limited</i> | | | | | | | |
| John Patrick Horan | 925,000 | - | - | - | 925,000 | 925,000 | - |
| Leslie Sidney George Emery | 4,000,000 | - | - | - | 4,000,000 | 4,000,000 | - |
| Dennis William Wilkins | 2,000,000 | - | - | (500,000) | 1,500,000 | 1,500,000 | - |
| Douglas Dunnet | 600,000 | - | - | (300,000) | 300,000 | 300,000 | - |
| <i>Other key management personnel of the Group</i> | | | | | | | |
| Peter Dendle | - | 500,000 | - | - | 500,000 | 500,000 | - |

(iii) Share holdings

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

2007

| | Balance at start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year |
|--|------------------------------|---|-------------------------------|----------------------------|
| <i>Directors of Marengo Mining Limited</i> | | | | |
| Ordinary shares | | | | |
| John Patrick Horan | 310,000 | - | 200,000 | 510,000 |
| Leslie Sidney George Emery | 1,485,000 | - | - | 1,485,000 |
| Dennis William Wilkins | 104,193 | - | - | 104,193 |
| Douglas Dunnet | 178,967 | - | - | 178,967 |
| <i>Other key management personnel of the Group</i> | | | | |
| Ordinary shares | | | | |
| Peter Dendle | - | - | - | - |

2006

| | 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 Patrick Horan | 260,000 | - | 50,000 | 310,000 |
| Leslie Sidney George Emery | 1,485,000 | - | - | 1,485,000 |
| Dennis William Wilkins | 1,104,193 | - | (1,000,000) | 104,193 |
| Douglas Dunnet | 365,907 | - | (186,940) | 178,967 |
| <i>Other key management personnel of the Group</i> | | | | |
| Ordinary shares | | | | |
| Peter Dendle | - | - | - | - |

(d) Loans to key management personnel

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

(e) Other transactions with key management personnel

Services

DWCCorporate, a business of which Mr Wilkins is principal, provided company secretarial and other corporate services to Marengo Mining Limited during the year. The amounts paid were at arms length and are included as part of Mr Wilkins compensation.

Notes to the Financial Statements continued

30 JUNE 2007

| | Consolidated | | Parent Entity | |
|---|---------------|--------|---------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| 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 | 26,427 | 14,294 | 26,427 | 14,294 |
| Non-related audit firm for the audit or review of financial reports of any entity in the Group | 11,664 | - | - | - |
| Total remuneration for audit services | 38,091 | 14,294 | 26,427 | 14,294 |
| (b) Non-audit services | | | | |
| Stantons International - tax compliance services | 331 | 2,034 | 331 | 2,034 |

20. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the 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 | 850,710 | 1,181,440 | - | 125,000 |
| later than one year but not later than five years | 1,215,300 | 1,008,420 | - | - |
| | 2,066,010 | 2,189,860 | - | 125,000 |

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

| | | | | |
|--|----------------|--------|----------------|--------|
| Minimum lease payments | | | | |
| within one year | 75,096 | 53,140 | 75,096 | 53,140 |
| later than one year but not later than five years | 163,403 | 32,775 | 163,403 | 32,775 |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | 238,499 | 85,915 | 238,499 | 85,915 |

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

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

| | | | | |
|---|----------------|---------|----------------|---------|
| within one year | 349,000 | 275,500 | 349,000 | 275,500 |
| later than one year but not later than five years | 642,500 | 79,313 | 642,500 | 79,313 |
| | 991,500 | 354,813 | 991,500 | 354,813 |

Notes to the Financial Statements continued

30 JUNE 2007

| Consolidated | | Parent Entity | |
|--------------|------|---------------|------|
| 2007 | 2006 | 2007 | 2006 |
| \$ | \$ | \$ | \$ |

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 24.

(c) Key management personnel

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

(d) Loans to related parties

Loans to subsidiary

| | | | | |
|------------------------------|---|---|-------------|-------------|
| Beginning of the year | - | - | 94,085 | 40,000 |
| Loans advanced | - | - | 14,141,591 | 1,517,696 |
| Loan repayments received | - | - | - | - |
| Provision for doubtful debts | - | - | (7,037,583) | (1,463,611) |
| End of the year | - | - | 7,198,093 | 94,085 |

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.

23. BUSINESS COMBINATION

(a) Summary of acquisition

On 25 August 2006 Marengo Mining (PNG) Limited, a 100% owned subsidiary of the company, acquired 100% of the issued share capital of Belvedere Limited, a private company incorporated in Papua New Guinea. In accordance with the *Companies Act 1997* of Papua New Guinea, on 27 June 2006 Marengo Mining (PNG) Limited and Belvedere Limited amalgamated, with the name of the amalgamated company being Marengo Mining (PNG) Limited. In essence, this involved Marengo Mining (PNG) Limited taking up all the assets and liabilities of Belvedere Limited, with Belvedere Limited being dissolved.

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

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

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

(b) Purchase consideration

| Consolidated | | Parent Entity | |
|--|-----------|---------------|-----------|
| 2007 | 2006 | 2007 | 2006 |
| \$ | \$ | \$ | \$ |
| Cash consideration and outflow of cash to acquire subsidiary | 3,000,000 | - | 3,000,000 |
| | - | - | - |

Notes to the Financial Statements continued

30 JUNE 2007

23. BUSINESS COMBINATION (cont'd)

(c) Assets and liabilities acquired

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

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

There were no acquisitions in the year ended 30 June 2006.

24. SUBSIDIARIES

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

| Name | Country of Incorporation | Class of Shares | Equity Holding* | |
|--------------------------|--------------------------|-----------------|-----------------|------|
| | | | 2007 | 2006 |
| | | | % | % |
| Marengo Mining (PNG) Ltd | Papua New Guinea | Ordinary | 100 | 100 |

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

25. INTERESTS IN JOINT VENTURES

(a) Yandera Project

In April 2005, the company entered into an agreement to earn an initial 50% interest in the Yandera Project in the Madang Province of PNG, from Belvedere Ltd (a private PNG company), by expending A\$500,000 by April 2007 on exploration of the project area. Following completion of the first stage, the company can earn up to a 90% interest in the Yandera Project, by sole funding to completion of a bankable feasibility study (subject to Belvedere Ltd not electing to contribute).

In August 2006 this agreement was superseded by the acquisition of all of the issued capital of Belvedere Ltd by Marengo Mining (PNG) Ltd, a 100% owned subsidiary of the company. Refer to note 23 for details of the acquisition.

(b) Bowgan Project

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

26. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

During August 2007 the company commenced a placement of ordinary shares with institutions and sophisticated investors that will, subject to shareholder approval at a General Meeting in September 2007, result in the issue of 41,666,667 ordinary shares to raise a gross amount of \$15 million.

No other matter or circumstance has arisen since 30 June 2007, 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 2007

| | Consolidated | | Parent Entity | |
|--|--------------------|--------------------|--------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| 27. CASH FLOW STATEMENT | | | | |
| (a) Reconciliation of net loss after income tax to net cash outflow from operating activities | | | | |
| Net loss for the year | (7,881,418) | (2,766,292) | (8,270,934) | (2,533,105) |
| Non-Cash Items | | | | |
| Depreciation of non-current assets | 46,788 | 22,780 | 25,453 | 14,692 |
| Option expense | 10,220 | 100,739 | 10,220 | 100,739 |
| Net exchange differences | 219,660 | 141 | - | - |
| Doubtful debts expense | - | - | 7,037,583 | 1,463,611 |
| Change in operating assets and liabilities, net of effects from purchase of controlled entity | | | | |
| (Increase)/decrease in trade and other receivables | (381,813) | (74,276) | (72,141) | - |
| (Decrease)/increase in trade and other payables | (102,782) | 509,546 | (29,716) | 4,727 |
| Increase in employee entitlement provisions | 83,260 | 26,386 | 72,965 | 26,386 |
| Net cash outflow from operating activities | <u>(8,006,085)</u> | <u>(2,180,976)</u> | <u>(1,226,570)</u> | <u>(922,950)</u> |

(b) Non-cash investing and financing activities

Details of equity securities issued as part consideration for the acquisition of a subsidiary are shown in note 23(a).

28. LOSS PER SHARE

| | Consolidated | |
|--|--------------------|--------------------|
| | 2007 | 2006 |
| | \$ | \$ |
| (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>(7,881,418)</u> | <u>(2,766,292)</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>103,780,299</u> | <u>53,732,944</u> |

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2007, 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 2007

29. SHARE-BASED PAYMENTS

Employees and consultants options

The Group provides benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 20 cents to 30 cents per option. All options granted to employees are exercisable at any time from the date of issue until 30 November 2008. Options granted to consultants have expiry dates ranging from 28 February 2008 to 31 December 2011.

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

Set out below are summaries of granted options:

| | Consolidated and Parent Entity | | | |
|--|--------------------------------|---------------------------------------|-------------------|---------------------------------------|
| | 2007 | | 2006 | |
| | Number of options | Weighted average exercise price cents | Number of options | Weighted average exercise price cents |
| Outstanding at the beginning of the year | 2,350,000 | 23.6 | 850,000 | 23.5 |
| Granted | 100,000 | 30.0 | 1,500,000 | 23.7 |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at year-end | 2,450,000 | 23.9 | 2,350,000 | 23.6 |
| Exercisable at year-end | 2,450,000 | 23.9 | 2,350,000 | 23.6 |

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.48 years (2006: 2.48 years), and the exercise prices range from 20 cents to 30 cents.

Expenses arising from share-based payment transactions

The weighted average fair value of the options granted during the year was 10.2 cents (2006: 16.4 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

| | 2007 | 2006 |
|---|-------|-------|
| Weighted average exercise price (cents) | 30.0 | 29.2 |
| Weighted average life of the option (years) | 2.05 | 2.74 |
| Weighted average underlying share price (cents) | 26.5 | 32.2 |
| Expected share price volatility | 70% | 70% |
| Risk free interest rate | 6.25% | 5.50% |

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

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

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

| | Consolidated | | Parent Entity | |
|---|--------------|---------|---------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Options issued to employees and consultants | 10,220 | 100,739 | 10,220 | 100,739 |

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 40 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 2007 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 7 and 8 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

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

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



Leslie Sidney George Emery
Managing Director

Perth, 10 August 2007

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 2007, 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.

As permitted by the Corporations Regulations 2001, the Company has disclosed the information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" on pages 6 to 8 of the Directors' report and not the financial report. We have audited these remuneration disclosures.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion that the remuneration disclosures contained in the Directors' report comply with Australian Accounting Standard AASB 124.

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

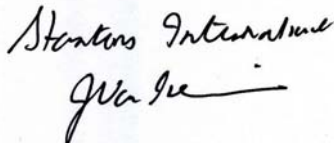
Independence

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

Auditor's Opinion

1. 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 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note .
 - (c) the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of Australian Accounting Standard AASB 124 Related Party Disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

STANTONS INTERNATIONAL
(An Authorised Audit Company)



J P Van Dieren
Director

West Perth, Western Australia
10 August 2007