MARENGO
Mining Limited

# 2014 Financial Report

## Years ended June 30, 2014 and 2013

(Based on International Financial Reporting Standards ("IFRS") and stated in thousands of United States dollars, unless otherwise indicated)

## INDEX

COMPANY NO. 822513-3 / ARBN: 161 356

# Management's Responsibility for Financial Reporting

The consolidated financial statements, the notes thereto, of Marengo Mining Limited (the "Company" and its subsidiaries have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management, in discharging these responsibilities, maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, only valid and authorized transactions are executed and accurate, timely and comprehensive financial information is prepared. However, any system of internal controls over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

The Board of Directors, principally through the Audit and Risk Committee, is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfils its financial reporting responsibilities.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, who were appointed by the shareholders to examine the consolidated financial statements and provide an independent auditor's opinion thereon. The auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements. PricewaterhouseCoopers LLP has full and free access to the Board of Directors.

"signed"
**Pieter Britz**
**Chief Executive Officer**

"signed"
**Alexander Dann**
**Chief Financial Officer**

September 22, 2014

September 22, 2014

**Independent Auditor's Report**

**To the Shareholders of**
**Marengo Mining Limited**

We have audited the accompanying consolidated financial statements of Marengo Mining Limited, which comprise the consolidated statements of financial position as at June 30, 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Marengo Mining Limited as at June 30, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Marengo Mining Limited's ability to continue as a going concern.

## Other matter

The consolidated financial statements of Marengo Mining Limited as at and for the year ended June 30, 2013 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated September 30, 2013.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

# Consolidated Statements of Financial Position

*(Stated in thousands of U.S. dollars)*

| | Notes | As of June 30, 2014 | As of June 30, 2013 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | 421 | 1,667 |
| Investments – term deposits | 4,5 | 99 | 5,025 |
| Receivables and other current assets | 6 | 318 | 957 |
| **TOTAL CURRENT ASSETS** | | **838** | **7,649** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 7 | 610 | 1,154 |
| Exploration and evaluation assets | 8 | 160,855 | 173,667 |
| **TOTAL NON-CURRENT ASSETS** | | **161,465** | **174,821** |
| **TOTAL ASSETS** | | **162,303** | **182,470** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | 2,402 | 3,094 |
| Provisions | 10 | 663 | 1,040 |
| Loans and borrowings | 11 | 3,046 | 10,668 |
| Derivative financial instrument | 12 | 14,581 | 611 |
| **TOTAL CURRENT LIABILITIES** | | **20,692** | **15,413** |
| **NON-CURRENT LIABILITIES** | | | |
| Loans and borrowings | 11 | 17,222 | 6,833 |
| **TOTAL NON-CURRENT LIABILITIES** | | **17,222** | **6,833** |
| **TOTAL LIABILITIES** | | **37,914** | **22,246** |
| **SHAREHOLDER'S EQUITY** | | | |
| Share capital | 13 | 187,242 | 187,729 |
| Contributed surplus | 14 | 2,395 | 3,156 |
| Accumulated comprehensive losses | | (65,248) | (30,661) |
| **TOTAL EQUITY** | | **124,389** | **160,224** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **162,303** | **182,470** |

Nature of Operations and Going Concern (Note 1)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors on September 22, 2014

"signed"

John Hick
Chairman

"signed"

David Danziger
Audit Committee Chair

# Consolidated Statements of Loss and Comprehensive Loss

*(Stated in thousands of U.S. dollars, except shares and share data)*

| | Notes | For the years ended June 30, 2014 | 2013 |
|---|---|---|---|
| **EXPENSES** | | | |
| General and administration expenses | | (5,619) | (7,005) |
| Depreciation | 7 | (180) | (328) |
| Exploration and evaluation assets written-off | 8 | (213) | (410) |
| Forfeited land deposits | 8 | (466) | - |
| Net foreign exchange loss | | (1) | (322) |
| Loss on disposal of property, plant and equipment | 7 | (72) | - |
| Share-based payment recovery (expense) | 14 | 761 | (1,257) |
| | | **(5,790)** | **(9,322)** |
| **OTHER ITEMS** | | | |
| Interest income | | 59 | 361 |
| Other income (loss) | 12 | (1,578) | 1,785 |
| Financing costs | 11 | (6,339) | (851) |
| | | **(7,858)** | **1,295** |
| **NET LOSS FOR THE YEAR** | | **(13,648)** | **(8,027)** |
| **OTHER COMPREHENSIVE LOSS** | | | |
| *Items that may be reclassified to profit and loss* | | | |
| Exchange differences on translation of foreign operations | | (19,154) | (25,707) |
| **Other comprehensive loss for the year, net of tax** | | **(19,154)** | **(25,707)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED** | | **(32,802)** | **(33,734)** |
| Basic and diluted loss per share | | (1.20) | (0.71) |
| Weighted average shares outstanding | | 1,137,870,521 | 1,134,072,567 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Changes in Shareholders' Equity

*(Stated in thousands of U.S. dollars except share data)*

| | Notes | Share Capital | Options and Share Based Payments Reserve | Foreign Currency Translation Reserve | Accumulated Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **BALANCE AT JULY 1, 2012** | | 161,669 | 1,827 | 27,493 | (24,420) | **166,569** |
| Net loss for the year | | - | - | - | (8,027) | **(8,027)** |
| Other comprehensive income that may be reclassified to the profit and loss | | - | - | (25,707) | - | **(25,707)** |
| **TOTAL COMPREHENSIVE LOSS** | | **-** | **-** | **(25,707)** | **(8,027)** | **(33,734)** |
| **TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS** | | | | | | |
| Shares issued during the year | 13 | 20,256 | **-** | **-** | **-** | **20,256** |
| Share transaction costs | 13 | (1,605) | **-** | **-** | **-** | **(1,605)** |
| Exchange differences on restatement of equity items to presentation currency | | 7,409 | - | **-** | **-** | **7,409** |
| Employees and consultants share options | 14 | **-** | 1,329 | **-** | **-** | **1,329** |
| **BALANCE AT JUNE 30, 2013** | | **187,729** | **3,156** | **1,786** | **(32,447)** | **160,224** |
| Net loss for the year | | **-** | **-** | **-** | (13,648) | (13,648) |
| Other comprehensive income that may be reclassified to the profit and loss | | - | - | (19,154) | - | (19,154) |
| **TOTAL COMPREHENSIVE LOSS** | | **-** | **-** | **(19,154)** | **(13,648)** | **(32,802)** |
| **TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS** | | | | | | |
| Shares issued during the year | 13 | - | - | - | - | - |
| Financing transaction costs | | (24) | - | - | - | (24) |
| Exchange differences on restatement of equity items to presentation currency | | (463) | - | (1,785) | - | (2,248) |
| Employees and consultants share options | 14 | - | (761) | - | - | (761) |
| **BALANCE AT JUNE 30, 2014** | | **187,242** | **2,395** | **(19,153)** | **(46,095)** | **124,389** |

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

*(Stated in thousands of U.S. dollars)*

| | Notes | For the years ended June 30, 2014 | 2013 |
|---|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | | |
| Loss for the year | | (13,648) | (8,027) |
| Items not affecting cash: | | | |
| Depreciation | 7 | 180 | 328 |
| Share based compensation expense (recovery) | 14 | (761) | 1,257 |
| Fair value of derivative liability loss (gain) | 12 | 1,578 | (1,762) |
| Interest accrued on debentures | 11 | 6,339 | - |
| Loss on disposal of property, plant and equipment | 7 | 72 | - |
| Write-down of exploration and evaluation assets | 8 | 213 | 410 |
| Changes in working capital | 18 | (63) | (2,795) |
| Net cash used in operating activities | | **(6,090)** | **(10,589)** |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Decrease in term deposits | | 4,926 | 5,339 |
| Interest received | | 59 | 361 |
| Proceeds from sale of property, plant and equipment | | 37 | 23 |
| Additions to property, plant and equipment | 7 | (14) | (827) |
| Additions to exploration and evaluation assets (includes changes in working capital) | 8 | (8,616) | (30,293) |
| Net cash used in investing activities | | **(3,608)** | **(25,397)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issues of ordinary shares | 13 | - | 20,256 |
| Proceeds from borrowings | 11 | 9,000 | 17,493 |
| Payment of financing costs | | (471) | (1,605) |
| Net cash provided by financing activities | | **8,529** | **36,144** |
| (Decrease)/Increase in cash and cash equivalents for the year | | (1,169) | 158 |
| Cash and cash equivalents, beginning of the year | | 1,667 | 1,014 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (77) | 495 |
| **Cash and cash equivalents, end of the year** | | **421** | **1,667** |

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements for the Year Ended June 30, 2014

*(All currency amounts are in thousands of U.S. dollars, unless stated otherwise)*

## (1) NATURE OF OPERATIONS AND GOING CONCERN

Marengo Mining Limited (the "Company" or "Marengo") is an international mineral exploration and development company and is operating under the Ontario Business Corporation Act. Its registered office is in Toronto, Canada, at 100 King Street West, Suite 3400, Toronto, Ontario, M5X 1B8. Marengo is listed on the Toronto Stock Exchange (the "**TSX**") (Symbol: MRN), Australian Securities Exchange (the "**ASX**") and the Port Moresby Stock Exchange Limited ("**POMSoX**") (Code: MMC).

The primary activity of the Company is the exploration and development of its principal asset, the Yandera copper-molybdenum-gold property (the "**Yandera Project**") in Papua New Guinea. The Company is currently focused on advancing the development of the Yandera Project.

The Company is an exploration and development stage entity and has not yet achieved profitable operations. It is subject to risks and challenges similar to companies in a comparable stage of development. These risks include, but are not limited to the challenges of securing adequate capital to fund its activities, operations risks inherent in the mining industry, and global economic and commodity price volatility. The underlying value of the Yandera Project and the recoverability of the related capitalized costs are entirely dependent on the Company's ability to successfully develop the Project by, among other things, securing necessary permits, obtaining the required financing to complete the development and construction, and upon future profitable production from, or the proceeds from the disposition of, its mineral property.

As at June 30, 2014, the Company incurred a comprehensive loss of $32,802 (June 30, 2013 - $33,734) and reported accumulated comprehensive losses of $65,248 (June 30, 2013 - $30,661). The Company had a working capital deficiency of $19,854 (June 30, 2013 - $7,764). The Company's sole source of funding has been the issuance of convertible debt and other loan instruments, and equity securities.

As at June 30, 2014, the Company had $421 in available cash and cash equivalents and short term deposits (June 30, 2013 - $6,692). There are no sources of operating cash inflows. Given the Company's current financial position and the anticipated ongoing exploration and evaluation expenditures for the Yandera Project, Marengo's major shareholder, Sentient Executive GP IV (Sentient) has agreed to provide financial assistance to the Company through to February 14, 2015. Note 11 sets out the details of the restructuring of the Company's financial commitments with Sentient and further transactions subsequent to the year-end as described in Note 22.

The Company will need to raise additional capital through equity issuance or other available financing alternatives in parallel with financial support provided by Sentient in order to continue funding its operating, exploration and evaluation activities, and eventual development of the Yandera Project. Although the Company has been successful in its past fundraising activities, there is no assurance as to the success of future fundraising efforts or as to the sufficiency of funds raised in the future.

These circumstances, along with other risks relevant to exploration companies, such as continuing losses, result in material uncertainty which lends significant doubt as to the ability of the Company to fulfil its exploration and development activities and, accordingly, the appropriateness ultimately of the use of the accounting principles applicable to a going concern.

Management expects that additional funding will be provided from Sentient or other sources, and therefore these consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from June 30, 2014. Different basis of measurement may be appropriate when a Company is not expected to continue operations for the foreseeable future.

These consolidated financial statements do not give effect to adjustments to the carrying values of assets, liabilities and the reported expenses and classifications that would be necessary, should the Company be unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 22, 2014.

## (2) BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the consolidated entity consisting of Marengo Mining Limited and its subsidiaries. Marengo Mining Limited is a company limited by shares, domiciled and incorporated in Canada.

*(a) Statement of Compliance*

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*(b) Basis of Preparation*

These consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of any financial assets and financial liabilities (including derivative instruments), measured at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

*(c) Basis of consolidation*

The consolidated financial statements incorporate the financial statement of the Company, Marengo Mining Limited, and its wholly-owned subsidiaries. Consolidation is required when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

The consolidated financial statements incorporate the assets, liabilities and results of operations of the following subsidiaries:

| Name | Country of Incorporation | Class of Shares | Equity Holding 2014 (%) | Equity Holding 2013 (%) |
|---|---|---|---|---|
| Marengo Mining (Australia) Limited | Australia | Ordinary | 100 | 100 |
| Yandera Mining Company Limited | Papua New Guinea | Ordinary | 100 | 100 |
| Yandera Mining Company (Holdings) Pty Limited | Australia | Ordinary | 100 | 100 |
| Marengo Mining (PNG) Limited | Papua New Guinea | Ordinary | 100 | 100 |

On January 10, 2013, the Company implemented a restructuring, by way of a Scheme of Arrangement (“Scheme”), which resulted in the re-domiciling of the Company from Australia to Canada under the name Marengo Mining Limited. Pursuant to the Scheme, the current wholly-owned Australian subsidiary (Marengo Mining (Australia) Limited) was acquired by the Company effective January 10, 2013. This transaction has been accounted for as a capital reorganisation, rather than a business combination.

*(d) Foreign Currencies*

The individual financial records of each group entity are kept in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

Foreign currency transactions in a currency other than the entity's functional currency are recognized using the exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated at the rates of exchange prevailing on the underlying transaction dates.

Exchange differences are recognized in profit and loss in the period in which they arise.

For the purposes of presenting consolidated financial statements:

- Assets and liabilities of the foreign operations are expressed in United States dollars using exchange rates prevailing at the end of the reporting period;
- Income and expense items are translated at average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case exchange rates at the dates of the transactions are used; and
- All resulting exchange rate differences are recognised in other comprehensive loss and accumulated comprehensive losses.

*(e) Share-Based Compensation*

The Company has a stock option plan that allows the Company's employees and directors to acquire common shares of the Company. The fair value of the options granted is recognized as a share-based compensation expense with a corresponding increase in contributed surplus. The fair value of options is measured using the Black-Scholes option pricing model and estimated forfeitures as at the grant date is recognized over the vesting period. At each financial reporting date, the compensation expense is adjusted to reflect any changes to the Company's estimate of the number of awards that are expected to vest. Upon exercise of a share option, the consideration received is credited to share capital along with the amounts previously recognized in contributed surplus.

The Company also recognizes share-based compensation awards made in the current period whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined 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 management, will ultimately vest. This opinion is formed based on the best available information at reporting 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.

*(f) Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis ("temporary differences") and loss carry-forwards.

Such deferred tax assets and liabilities are not recognized if the temporary differences arise from goodwill or the initial recognition of assets and liabilities (other than in a business combination) in a transaction that affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates and laws that have been enacted or substantially enacted by the reporting period and are expected to apply in the period in which the tax asset is realised or the tax liability is settled.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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 taxes are recognised as expense or income in profit or loss, except when they relate to items that are recognised outside profit and loss (whether in other comprehensive income or directly in equity), in which case, the tax is also recognised outside profit and loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

*(g) Cash and Cash Equivalents*

Cash and cash equivalents are comprised of cash on hand, and cash held with financial institutions, and 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.

*(h) Short Term Deposits*

Short-term deposits include deposits with maturity terms of greater than three months, but less than one year. Interest income on these short-term deposits is recorded as earned over the term of the deposit.

*(i) Financial Assets*

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial reporting period.

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less any impairments. Any losses arising from impairments are recognized in the consolidated statement of comprehensive loss.

*Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings.

*(j) Financial Liabilities*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Company’s financial liabilities include accounts payable, accrued liabilities, provisions, loans, convertible debentures and a derivative liability.

*Financial liabilities at fair value through profit or loss*
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

*Convertible Debentures*
The Company's convertible debentures are considered financial instruments initially measured at fair value, net of direct expenses, through profit or loss, then subsequently at amortized cost. The convertible debentures contain embedded derivatives conversion feature option that could significantly modify the cash flows that otherwise would be required by the contract.

Embedded derivatives are separated from the host liability debt component and accounted for separately. The conversion feature is recognized initially and subsequently at the end of each reporting period at fair value using a Black-Scholes option pricing model. Any changes in fair value of the derivatives are recognized as profit or loss in the consolidated statement of comprehensive loss. Upfront costs and fees related to the convertible debentures are netted against the host liability of the convertible debentures.

*Interest-Bearing Loans and Borrowing Costs*
Financial liabilities classified as loans are initially recognised at fair value, net of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statements of comprehensive loss over the term of the loan using the effective interest method.

Loans with embedded derivative feature are separated from the derivative component. The embedded derivative liability is measured and accounted for similarly as embedded derivatives in convertible debentures.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the debt facility to which it relates.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

*Fair value hierarchy*
The Company uses a three level hierarchy to categorize the significance of the inputs used in measuring the fair value of financial instruments. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 consists of financial instruments such as quoted share prices.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. Level 3 instruments may include items based on pricing services or broker quotes where the Company is unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar location, similar instruments or later time periods.

*(k) Other Comprehensive Income/(Loss)*

Other comprehensive income/(loss) ("OCI") consists of unrealized gains/(losses) of exchange differences arising from translation of foreign operations.

*(l) Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement at the inception date.

*Finance Leases*
Finance leases which transfer substantially all the risks and rewards of ownership of the leased item to the Company as a lessee, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at 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. Lease payments are allocated between the liability and finance cost. The finance cost is recognized in the consolidated statements of earnings.

*Operating Leases*
Leases where a significant portion of the risks and rewards of ownership are not transferred to the Company as a lessee are classified as operating leases. Payments made under operating leases are recognized in the consolidated statements of earnings on a straight-line basis over the lease term.

*(m) Property, Plant and Equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are 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 Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

Depreciation is recognized so as to the write-off the cost of assets less their residual values over their useful lives using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Gains and losses on disposals are included in the profit and loss.

The Company provides depreciation of its property, plant and equipment at the following annual rates:

| | | |
|---|---|---|
| Buildings | - | Straight line 10-15 years |
| Furniture, Fittings and Equipment | - | Straight line 5-12 years |
| Motor Vehicles | - | Straight line 5 years |

*(n) Impairment of Long-Lived Assets*

At each reporting period, the Company assesses changes to facts and circumstances and determines if there is an indication that the carrying amount of an asset may exceed its recoverable amount.

Where an indicator of impairment exists, a formal estimate of the recoverable amount of the asset is made.

The recoverable amount is the higher of the fair value less costs of disposal and value in use:

- Fair value less cost of disposal is the amount obtainable from the sale of the asset or cash-generating unit ("CGU") in an arm's length transaction between knowledgeable, willing parties less costs of disposal.
- Value in use is determined as the present value of the estimated future pre-tax cash flows expected to arise from. The continued use of the asset or CGU in its present form and its eventual disposal, discounted using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the asset for which estimate of future cash flows have not been adjusted. Value in use calculations do not take into account future development.

In determining a CGU, management has examined the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets.

The continued use of the asset or CGU in its present form and its eventual disposal, discounted using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the asset for which estimate of future cash flows have not been adjusted. Value in use calculations do not take into account future development.

If the carrying amount of the asset or CGU exceeds its recoverable amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized in the income statement.

Previously recognized impairment losses are assessed each reporting period for any indications that the losses have decreased or no longer exist. Such an impairment loss is reversed, in full or in part, if there has been a change in the estimates used to determine the recoverable amount, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment losses had been recognized in previous periods.

*(o) Exploration and Evaluation Expenditures*

Exploration and development costs related to the acquisition of mineral interest rights, exploratory drilling, geological and technical feasibility studies are accumulated and capitalised in relation to each identifiable area of interest. Accumulated costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

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

Costs incurred in relation to prospecting, or preparing for or applying for prospecting rights are expensed as incurred.

*(p) Common Shares (Share Capital) and Warrants*

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Warrants are classified within contributed surplus. Where common share and warrants are offered together as a "unit", the Company allocates the consideration received per unit, net of any issuance costs, to the common shares and warrants based on their relative fair values. The fair value of warrants is measured using the Black-Scholes option pricing model.

*(q) Equity Financing and Listing Costs*

Costs directly identifiable with the raising of capital are charged against the related capital account. Costs related to securities not yet but likely to be issued are presented as a prepaid asset until the issuance of the securities, to which the costs relate, at which time the costs are charged against the related capital account or charged to earnings if the securities are not issued.

Costs which are incurred as part of an actual or proposed listing of existing shares are expensed as incurred.

*(r) Loss per Share*

The Company presents basic and diluted loss per share for its common shares calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of ordinary common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

*(t) Change of Accounting Policy*

During the 2013 fiscal year the Company structure was changed to include a Canadian parent company, Marengo Mining Limited. The functional currency for the Canadian parent company was assessed and determined to be United States Dollars (USD). The functional currency of the Australian subsidiaries remains Australian dollars (AUD) and the Papua New Guinea subsidiaries is Papua New Guinea Kina (PGK).

Following the addition of the new parent company with a USD functional currency, the Company elected to change its presentation currency from AUD to USD. The change in presentation currency was made to better reflect the Company's business activities, its re-domicile to North America and to improve comparability with the Company's peers in the mining industry. The change in the presentation currency represents a change in accounting policy, which has been applied retrospectively.

*(u) Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The Company operates in one reportable segment, that being the exploration, evaluation and development of mineral properties.

*(v) Standards, Interpretations and Amendments Not Yet Effective*

IFRIC 21 "Levies"

IFRIC 21, Accounting for levies imposed by government clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of this interpretation.

IAS 32 "Financial Instruments: Presentation"

IAS 32 Financial instruments: presentation was amended to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. Under this amendment, the meaning of "currently has a legally enforceable right of set-off" was clarified as well as providing clarification that some gross settlement systems may be considered equivalent to net settlement. This amendment is effective for annual periods beginning on or after January 1, 2014 and is not expected to have a significant impact on the Company.

IFRS 9 "Financial Instruments"

IFRS 9 Financial Instruments, addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, financial instruments - Recognition and Measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of earnings to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is still assessing the impact of this standard.

IAS 36 "Impairment of Assets"

The IASB has amended IAS 36 to remove the requirement to disclose recoverable amount when a cash generating unit ("CGU") contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendment requires additional disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed.

## (3) CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that can affect reported amounts of assets, liabilities revenues and expenses and the accompanying disclosures. Estimates and assumptions are continuously evaluated and are based on management's historical experience and on other assumptions believed to be reasonable under the circumstances. However, uncertainty about these judgments, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

*(a) Fair Value of Derivative Liability*

The embedded derivative conversion feature contained within the convertible debentures is valued using a Black-Scholes model. The inputs to this model are taken from observable markets where possible, but if this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as expected volatility and the expected life of the conversion feature option. Changes in assumptions about these factors could affect the reported fair value of the derivative liabilities.

*(b) Carrying Value of Assets and Impairment Charges*

The Company undertakes a review of each asset and CGU at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount of the asset or CGU is made. An impairment loss is recognized when the carrying value of the asset or CGU is higher than the recoverable amount. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, discount rates, commodity prices, availability of financing, future operating and capital costs. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the asset or CGU.

*(c) Share-Based Transactions*

The Company estimates the fair value of convertible securities such as warrants and options using a Black-Scholes option pricing model which requires significant estimation around assumptions and inputs such as expected term to maturity, expected volatility and expected forfeiture rates. Refer to accounting policies in note 2 (e) as well as note 15 for further details of significant assumptions applied to these areas of estimation.

## (4) CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

Cash and cash equivalents consisted of $421 (June 30, 2013 - $1,667). The Company held $99 in short term deposits (June 30, 2013 - $5,025), with maturity of less than 12 months from the balance sheet date. All accounts and deposits are with Chartered Banks.

## (5) RESTRICTED CASH

The Company has set aside $99 (June 30, 2013 - AUD$100) in term deposits relating to the bank guarantees with a third party supplier.

## (6) RECEIVABLES AND OTHER CURRENT ASSETS

Receivables of $49 (June 30, 2013 - $109) consisted of harmonized sales tax ("HST"), good services tax ("GST") and other miscellaneous receivables.

The balance in other current assets of $269 (June 30, 2013 - $848) relates primarily to prepaid expenditures.

## (7) PROPERTY, PLANT AND EQUIPMENT

The table below sets out costs and accumulated depreciation as at June 30, 2014 and 2013:

| | Land and Buildings | Furniture, Fittings and Equipment | Vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance – July 1, 2012** | **234** | **1,818** | **496** | **2,548** |
| Additions | - | 176 | 80 | 256 |
| Transfers | (62) | - | - | (62) |
| Foreign exchange | (13) | (83) | (35) | (131) |
| Disposals | - | (8) | (5) | (13) |
| **Balance – June 30, 2013** | **159** | **1,903** | **536** | **2,598** |
| Additions | - | 14 | - | 14 |
| Foreign exchange | (14) | (214) | (41) | (269) |
| Disposals | - | (19) | (90) | (109) |
| **Balance – June 30, 2014** | **145** | **1,684** | **405** | **2,234** |
| **Accumulated Depreciation** | | | | |
| **Balance – July 1, 2012** | **40** | **860** | **216** | **1,116** |
| Depreciation | 13 | 237 | 78 | 328 |
| **Balance – June 30, 2013** | **53** | **1,097** | **294** | **1,444** |
| Depreciation | 10 | 135 | 35 | 180 |
| **Balance – June 30, 2014** | **63** | **1,232** | **329** | **1,624** |
| **Carrying Amount** | | | | |
| As at July 1, 2012 | 194 | 958 | 280 | 1,432 |
| As at June 30, 2013 | 106 | 806 | 242 | 1,154 |
| **As at June 30, 2014** | **82** | **452** | **76** | **610** |

## (8) EXPLORATION AND EVALUATION ASSETS

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Opening net cost amount | 173,667 | 160,881 |
| Foreign exchange | (20,847) | (19,561) |
| Expenditures capitalised during the year | 8,248 | 32,757 |
| Expenditures written-off during the year | (213) | (410) |
| **Closing Balance** | **160,855** | **173,667** |

During the year, the Company has written-off $213 (June 30, 2013 - $410) of its exploration and evaluation assets due to the abandonment of tenements.

*Forfeited Land Deposits*

On August 20, 2012, the Company entered into a land purchase agreement with Jant Limited through its wholly owned subsidiary Yandera Mining Company Limited. As per the terms of the agreement, the Company paid a purchase deposit in the amount of 1,000,000 PKG and also incurred additional legal related costs. During the quarter ended March 31, 2014, the Company withdrew from the agreement due to circumstances relating to non-rezoning of the land and internal restructuring. As a result of this forfeiture, the full amount of the purchase deposit was expensed in the Statement of Comprehensive Loss in the amount of $466 (1,211,962 PKG).

The Company previously farmed out its Bowgan Project to a subsidiary of Mega Uranium Limited (Mega). During August 2009, Mega further farmed out the project to Bowgan Minerals Limited (Bowgan) whereby Bowgan can earn up to an 80% interest in the project, by expending A$1,280,000, within five years. Upon completion of Bowgan's expenditure, the Company will retain a 10% interest. The joint venture is in relation to uranium and other minerals, and has a carrying value of nil.

## (9) TRADE AND OTHER PAYABLES

Accounts payable and accrued liabilities include the following components:

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Trade payables | 1,154 | 2,205 |
| Accrued liabilities | 1,248 | 889 |
| | **2,402** | **3,094** |

## (10) PROVISIONS

Provisions include the following components:

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Employee benefits | 663 | 1,040 |
| | **663** | **1,040** |

Employee benefits relate to accrued employees' entitlements for annual leave, time off in lieu and long service leave.

## (11) LOANS AND BORROWINGS

The following table displays the components of the Company's current and long term debt instruments:

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Current debt: | | |
| Sentient Loan | 3,046 | 10,668 |
| **Total current debt** | **3,046** | **10,668** |
| Long term debt: | | |
| 9% Convertible Debentures | 17,222 | 6,833 |
| **Total long term debt** | **17,222** | **6,833** |

***Sentient Loan***

On February 6, 2013, Sentient provided the Company a loan facility in the amount of $10,000. The loan was an interest bearing (with a 15% interest rate and 5% facility fee) and unsecured to provide funding for the completion of the Yandera Project feasibility study and for general working capital purposes and was repayable by December 31, 2013. On August 12, 2013, the Company issued $1,000 principal amount of unsecured convertible debentures (the "Debentures") in satisfaction of the interest accrued and payable up to the end of August 2013.

On April 29, 2014, the Company had signed another loan agreement with Sentient. Under the terms of the loan agreement, Sentient provided the Company a loan facility of $3,000. The loan accrues interest monthly at a rate of 9% per annum, payable quarterly. The maturity date of the loan is December 31, 2014 and is disclosed in current liabilities on the statement of financial position. Subject to applicable shareholder and regulatory approvals, the principal and interest accrued on the loan may be payable by the Company through issuance of common shares or other securities convertible into common shares of the Company. Interest accrued at the end June 30, 2014 totalled $46.

On June 2, 2014, the Company announced that it had entered into a loan conversion and debenture purchase agreement (the "Agreement") with Sentient. Pursuant to the terms of the Agreement, and subsequent to year-end, on July 15, 2014, the

Company has: (i) converted the unsecured interest-bearing debt facility with Sentient, in the aggregate principal amount of $3,000, dated April 29, 2014 and due on December 31, 2014, along with interest into 9.0% senior unsecured convertible debentures of the Company in the principal amount of $3,055 (the "Loan Debentures"); and (ii) issued and sold to Sentient 9.0% senior unsecured convertible debentures of the Company in the principal amount of $7,000 (the "Investment Debentures").

As described in the subsequent events Note 22, on July 15, 2014, the Company has completed the transaction with Sentient previously announced on June 2, 2014, issuing a total of $10,195 principal amount of Debentures to Sentient pursuant to a loan conversion and debenture purchase agreement dated June 2, 2014. The new debentures consist of $3,055 Loan Debentures, $7,000 Investment Debentures and $140 Establishment Fee Debentures.

***Convertible Debentures***

On May 27, 2013, the Company entered into a debenture purchase agreement (the "Debenture Purchase Agreement") with Sentient, under which the Company issued 15,000 9% convertible notes for $15,000 in three tranches with a 2% establishment fee. The notes were unsecured and convertible into ordinary shares of the Company, at the option of the holder, or repayable at the earlier of June 30, 2016 and three years following the closing date of the third tranche. As at December 31, 2013 the full facility had been drawn to a total of $15,000.

On January 15, 2014, the Company completed the issuance of $27,509 principal amount of convertible unsecured debentures to Sentient, pursuant to a Loan Conversion and Debenture Exchange Agreement dated November 29, 2013.

Pursuant to the terms of the Agreement, Sentient (i) converted the unsecured interest-bearing debt facility in the aggregate principal amount $10,000, dated February 6, 2013, as amended, due on January 15, 2014, along with interest of $388 thereon, into new Debentures of the Company; (ii) exchanged its aggregate principal amount of $16,300 outstanding debentures (the "Sentient Outstanding Debentures") issued pursuant to the Debenture Purchase Agreement along with interest of $822 thereon, for new Debentures; and (iii) provided a letter of support to the Company, confirming, among other things, that Sentient will ensure the Company has sufficient funds to maintain solvency for a period of 12 months from the date of approval, being February 14, 2014 of the Company’s December 31, 2013 interim consolidated financial statements.

Each $1,000 face value Debenture is convertible, at the option of Sentient, into common shares or Chess Depositary Interests ("CDIs") of the Company at a conversion price of C$0.02 per common share or CDI. The conversion price of the Debentures will be adjusted in the event there is a reorganisation of capital or an issue of new shares at below the conversion price. The Debentures will mature on June 30, 2016 and bear interest at a rate of 9% per annum, which interest shall be satisfied through the issuance of additional Debentures. Interest is payable in semi-annual instalments on April 30 and October 30 in each year, commencing April 30, 2014. On April 30, 2014, the Company has issued $721in principal amount of convertible unsecured debentures to satisfy the first interest instalment payment due. As of June 30, 2014, the total of $6,339 of cumulative interest on convertible debenture was recognized and expensed in the statement of consolidated statements of loss and comprehensive loss, (June 30, 2013 - $851).

## (12) DERIVATIVE LIABILITY

The embedded derivative conversion option feature contained in the debentures is valued using a Black-Scholes model. The risk free interest rate used in the fair value computation is the interest rate on Canadian marketable security bond with maturity similar to the remaining life of the 9% Convertible Debentures. Volatility is calculated based on the daily volatility of our share price observable on the Toronto Stock Exchange market for a historical period equal to the remaining life of the Convertible Debentures.

As of June 30, 2014, the fair value of the derivative liability was $14,581 (June 30, 2013 - $611). The Company recorded a loss of $1,578 resulting from the fair value measurement (June 30, 2013 $1,785 gain). The movement in fair value results from changes to inputs used to determine the fair value at each reporting period.

Inputs used to determine the fair value on June 30, 2014 and June 30, 2013 were as follows:

| | **2014** | **2013** |
|---|---|---|
| 9% Convertible Debentures | | |
| Risk free interest rate | 1.09% | 1.25% |
| Volatility | 156% | 129% |
| Remaining life (years) | 2 | 3 |

## (13) SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares with one vote per share and no par value per share.

There were no common shares issued during the year ended June 30, 2014.

During the year ended June 30, 2013, the Company issued an aggregate of 134,125,408 common shares for total net proceeds of $18,651 (transaction costs amounted to $1,605). The shares issued were comprised of 792,075 common shares issued on exercise of options for net proceeds of $80 and 133,333,333 common shares issued at C$0.15 per share for net proceeds of $18,571.

Share capital outstanding at June 30, 2014 and June 30, 2013 was 1,137,870,521 common shares.

## (14) CONVERTIBLE SECURITIES - WARRANTS AND OPTIONS

*Warrants*

There were no new warrants issued or exercised during the year ended June 30, 2014. Warrants expired during the year ended June 30, 2014 totalled to 56,710,780. The Company has no warrants outstanding at the end of June 30, 2014 (June 30, 2013 - 56,710,780).

*Options*

The Company maintains a stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors, or consultants of the Company, options to acquire common shares under the terms as determined by the Board of Directors or such committee.

As of June 30, 2014, the Company had 55,143,526 remaining reserved options under the plan with 56,893,526 maximum allowed.

Options granted carry no dividend or voting rights. Options granted to directors and senior management vest as follows: 1/3 on grant, 1/3 on first anniversary of grant and 1/3 on second anniversary of grant. All other options granted to employees and consultants vest immediately.

The following table reflects the continuity of stock options for the years ended June 30, 2014 and 2013.

| | Number of Stock Options | Weighted Average Exercise Price- C$ |
|---|---|---|
| Balance, July 1, 2012 | 16,071,050 | 0.28 |
| Granted | 775,000 | 0.12 |
| Exercised | (642,105) | 0.08 |
| Expired | (5,778,945) | 0.09 |
| Forfeited | (425,000) | 0.23 |
| Balance, June 30, 2013 | 10,000,000 | 0.35 |
| Expired | (350,000) | 0.45 |
| Forfeited | (7,900,000) | 0.14 |
| **Balance, June 30, 2014** | **1,750,000** | **0.22** |
| **Exercisable, June 30, 2014** | **1,750,000** | **0.22** |

The fair value of option grants is estimated at the grant dates using the Black-Scholes option-pricing model. There were no option grants during the year ended June 30, 2014. Options granted during year ended June 30, 2013 totalled 775,000 with an average exercise price of C$0.12 per share and expiry date of five years from the date of grant.

Fair values of options granted during the year ended June 30, 2013 were based on the weighted average assumptions noted in the following table:

| Grant | 2013 |
|---|---|
| Exercise price | 0.21 |
| Risk-free interest rate | 4.23% |
| Annualized expected volatility | 88.53% |
| Expected life of options | 3.61 |
| Dividend rate | 0% |
| Forfeiture rate | 0% |
| Value per option | 0.012 |

*Performance Rights*

The Company maintains a performance rights plan under which the Board of Directors, or a committee appointed for such purpose, may grant rights to employees, officers, directors, or consultants of the Company to acquire common shares under the terms as determined by the Board of Directors or such committee. The 6,800,000 of performance rights outstanding at the end of June 30, 2014 consist of performance "B", 5,000,000 and performance rights "A", 1,800,000. Performance rights "A" vest at the earlier of when a decision to mine is made or when the Company's market capitalization reaches $400 million. Performance rights "B" vest upon the satisfaction of the following conditions; (i) obtaining project financing for the Yandera Project, (ii) 50% completion of the construction of the Yandera Project, and (iii) first production from the Yandera Project. All performance rights not vested by September 6, 2017 will lapse.

The following table reflects the continuity of performance rights for the years ended June 30, 2014 and 2013.

| | Number of Performance Rights | Weighted Average Exercise Price- C$ |
|---|---|---|
| Balance, July 1, 2012 | - | - |
| Granted | 47,400,000 | 0.00 |
| Exercised | - | - |
| Expired | - | - |
| Forfeited | (1,800,000) | 0.00 |
| Balance, June 30, 2013 | 45,600,000 | 0.00 |
| Expired | - | - |
| Forfeited | (38,800,000) | 0.00 |
| **Balance, June 30, 2014** | **6,800,000** | **0.00** |
| **Exercisable, June 30, 2014** | **-** | **-** |

The increased number of forfeited performance rights is mainly due to closure of the Company's Perth office and the resulting staff terminations.

The following table summarizes incentive stock options and performance rights outstanding at June 30, 2014:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| **Exercise price** | **Number of options** | **Weighted average exercise price** | **Weighted average remaining contractual life in years** | **Number of options** | **Weighted average exercise price** |
| A$0.25 | 100,000 | | 0.4 | 100,000 | |
| A$0.25 | 50,000 | | 0.3 | 50,000 | |
| A$0.25 | 650,000 | | 0.2 | 650,000 | |
| A$0.22 | 125,000 | | 1.1 | 120,000 | |
| A$0.32 | 150,000 | | 1.4 | 150,000 | |
| A$0.19 | 100,000 | | 1.8 | 100,000 | |
| A$0.24 | 175,000 | | 2.0 | 175,000 | |
| C$0.13 | 400,000 | | 3.3 | 400,000 | |
| **Total Options** | **1,750,000** | | | **1,750,000** | **C$0.22** |
| Performance Rights | 6,800,000 | | 3.2 | - | C$0.00 |
| | **8,850,000** | | | **1,750,000** | |

*Share-Based Compensation*

Share-based compensation expense resulted in recovery amount of $761 for the year ended June 30, 2014, (June 30, 2013 - $1,257 expense). Share-based compensation recovery resulted from unvested forfeited options and performance rights previously issued and forfeited during the current period. In addition, the probability that the vesting conditions of performance rights would be met prior to the expiry date was previously judged to be 100%, however, further reassessed and reduced to be 30%.

## (15) COMMITMENTS AND CONTINGENCIES

The Company has certain commitments to meet the minimum expenditure requirements on its mineral exploration assets it has interest in.

The Perth office in Australia represented a significant lease commitment in the prior years. The lease expired during the year ended June 30, 2014 and the office was closed. All other operating lease commitments relating to premises in Papua New Guinea have also expired during the year ended June 30, 2014 and have not been renewed. These premises are currently leased on a month-to-month contract basis.

The Company had no contingent liabilities as at June 30, 2014 and 2013.

Future minimum payments under the agreements as at June 30, 2014 are as follows:

| | Less than 1 year | 1 - 5 years | Total |
|---|---|---|---|
| Exploration commitments | 112 | 338 | 450 |
| **Total** | **112** | **338** | **452** |

## (16) RELATED PARTY TRANSACTIONS

***Key Management Personnel***

Key management personnel are defined as members of the Board of Directors and senior officers.

Key management compensation was:

| | For the years ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Salaries, wages and other benefits | 1,346 | 2,691 |
| Severances[(1)] | 1,709 | - |
| Share-based compensation | - | 1,166 |
| **Total** | **3,055** | **3,857** |

[(1)] The severances result from changes in executive management.

***Other Related Party Transactions***

(a) Transactions with Sentient

The Company had entered into a convertible debenture transaction and a loan facility agreement with its major shareholder, Sentient. Details of these transactions are described in the Note 11 above.

## (17) INCOME TAXES

As at June 30, 2014, the Company has temporary differences for which no deferred tax asset has been recognized of consolidated non-capital losses of $57,633 that expire between 2031 and 2033, and other deductible temporary differences of $4,248, the benefits of which have not been recognized in the consolidated financial statements.

Income tax varies from the amount that would be computed from applying the combined federal and provincial tax rate to accounting loss before taxes as follows:

| | 2014 | 2013 |
|---|---|---|
| Consolidated loss from continuing operations before income taxes | (13,648) | (8,027) |
| Expected tax recovery at combined statutory rate of 26.5% | (3,617) | (2,127) |
| Impact of differences between Canada and Australia tax rates | (478) | (281) |
| Non-deductible expenses: | | |
| Share based payments (recovery) | (202) | 377 |
| Other | 49 | 476 |
| | (4,248) | (1,555) |
| Future tax benefits not recognized | 4,248 | 1,555 |
| Total tax expense/(benefit) | - | - |

## (18) SUPPLEMENTAL CASH FLOW INFORMATION

Changes in working capital for the years ended June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Decrease/(increase) in accounts receivable and other current assets | 639 | (214) |
| (Decrease)/increase in accounts payable and accrued liabilities | (325) | (2,575) |
| (Decrease)/increase in provisions | (377) | (6) |
| **Total changes in working capital** | **(63)** | **(2,795)** |

## (19) RISK MANAGEMENT

The Company's exposure to market risk includes, but is not limited to, the following risks:

***Interest Rate Risk***

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our 9% Convertible Debentures and the outstanding loan under financing facility with Sentient bear interest at a fixed rate and are not subject to changes in interest payments.

***Foreign Currency Exchange Rate Risk***

Currency risk is risk that the fair value of future cash flows will fluctuate because of changes in foreign currency exchange rates. In addition, the value of cash and cash equivalents and other financial assets and liabilities denominated in foreign currencies can fluctuate with changes in currency exchange rates.

The Company undertakes transactions denominated in foreign currencies such as Canadian dollar, Australian dollar and Papua New Guinea kina, and consequently is exposed to exchange rate risks. Exchange risks are managed by matching levels of foreign currency balances and related obligations and by maintaining operating cash accounts in non-US dollar currencies. The rate published by the Bank of Canada at the close of business on June 30, 2014 was 1.0671 USD to CAD, 0.9247 AUD to USD and 0.4031 PGK to USD. (June 30, 2013 - 1.0512 USD to CAD, 0.9146 AUD to USD and 0.4594 PGK to USD). Based on the balances on June 30, 2014, total loss would change by approximately $13 given a 5% increase or decrease in the CAD, AUD and PGK currencies to USD dollar.

As at June 30, 2014, the cash and cash equivalents and short term deposits are denominated in the following currencies:

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Denominated in U.S. dollars | 217 | - |
| Denominated in Canadian dollars | 140 | 653 |
| Denominated in Australian dollar | 97 | 5,132 |
| Denominated in Papua New Guinea kina | 66 | 907 |
| **Total cash and cash equivalents and short term deposits** | **520** | **6,692** |

***Credit Risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our credit risk is primarily associated with liquid financial assets. We limit exposure to credit risk on liquid financial assets by holding our cash, cash equivalents, restricted cash and deposits at highly-rated financial institutions, being Chartered Banks.

***Liquidity Risk***

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages the liquidity risk inherent in these financial obligations by regularly monitoring actual cash flows to annual budget which forecast cash needs and expected cash availability to meet future obligations.

The Company will defer discretionary expenditures, as required, in order to manage and conserve cash required for current liabilities.

The following table shows the Company's contractual obligations as at June 30, 2014:

| **US$'000**<br>**As at June 30, 2014** | **Less than 1 year** | **1 - 2 years** | **2 - 5 years** | **Total** |
|---|---|---|---|---|
| Trade and other payables | 2,402 | - | - | 2,402 |
| Provisions | 663 | - | - | 663 |
| Loans | 3,046 | - | - | 3,046 |
| Derivative financial instrument | 14,581 | - | - | 14,581 |
| Convertible debentures | - | 17,222 | - | 17,222 |
| | **20,692** | **17,222** | **-** | **37,914** |

***Capital Risk Management***

The Company manages its capital to ensure that it will be able to continue as a going concern, so that adequate funds are available or are scheduled to be raised to carry out the Company's exploration program and to meet its ongoing administrative and operating costs and obligations. This is achieved by the Board of Directors' review and ultimate approval of budgets that are achievable within existing resources, and the timely matching and release of the next stage of expenditures with the resources made available from capital raisings and debt funding from related or other parties. In doing so, the Company may issue new shares, restructure or issue new debt.

The Company is not subject to any externally imposed capital requirements imposed by a regulator or a lending institution.

In the management of capital, the Company includes the components of equity, loans and borrowings, net of cash and cash equivalents.

| | As of June 30, 2014 | 2013 |
|---|---|---|
| Equity | 124,389 | 160,224 |
| Current debt | 20,692 | 15,413 |
| Long term debt | 17,222 | 6,833 |
| | 162,303 | 182,470 |
| Cash and cash equivalents | (421) | (1,667) |
| Investments - term deposits(1) | (99) | (5,025) |
| | **161,783** | **175,778** |

(1) At the end of June 30, 2014, the Company set aside $99 (June 30, 2013 - AUD$100) as a restricted cash in term deposits relating to the bank guarantees with a third party supplier.

## (20) FINANCIAL INSTRUMENTS

The following table illustrates the classification of the Company's recurring fair value measurements for financial instruments within the fair value hierarchy and their fair values as at June 30, 2014 and June 30, 2013:

| As of June 30, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Fair value through profit or loss: | | | |
| Derivative liability - Debentures conversion option | - | 14,581 | - |
| | - | 14,581 | - |

| As of June 30, 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Fair value through profit or loss: | | | |
| Derivative liability - Debentures conversion option | - | 611 | - |
| | - | 611 | - |

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable either directly or indirectly

Level 3 – Inputs that are not based on observable market data

Valuation technique that is used to measure the fair value is described in note 5.

## (21) OPERATIONS BY SEGMENT AND GEOGRAPHIC AREA

The Company operates in one reportable segments,being the exploration, evaluation and development of mineral properties.The Company's development property is located in one geographic area, being Papua New Guinea.

## (22) SUBSEQUENT EVENTS

On June 2, 2014, the Company announced that it (together with two wholly-owned subsidiaries) entered into a loan conversion and debenture purchase agreement with Sentient. Pursuant to the terms of the Agreement, the Company has: (i) converted the unsecured interest-bearing debt facility with Sentient, in the aggregate principal amount of US$3,000, dated April 29, 2014 and due on December 31, 2014, along with interest of US$55 thereon into 9.0% senior unsecured convertible debentures of the Company in the principal amount of US$3,055, (the "Loan Debentures"); and (ii) issued and sold to Sentient 9.0% senior unsecured convertible debentures of the Company in the principal amount of US$7,000 (the "Investment Debentures").

In connection with the transaction, the Company also paid to Sentient an establishment fee of 2% of the amount of Investment Debentures, which fee was satisfied by the Company through the issuance of US$140 principal amount of 9% senior unsecured convertible debentures (the "Establishment Fee Debentures", and together with the Loan Debentures and the Investment Debentures, the "Debentures").

On July 15, 2014, the Company completed the previously announced issuance of US$10,195 principal amount of Debentures to Sentient pursuant to the Agreement dated June 2, 2014, between the Company (together with its wholly-owned subsidiaries Yandera Mining Company Limited and Marengo Mining (PNG) Limited), and Sentient. The Company has: (i) converted the unsecured interest-bearing debt facility with Sentient, in the aggregate principal amount of US$3,000 dated April 29, 2014 and due on December 31, 2014, along with interest of US$55 thereon into 9.0% senior unsecured convertible debentures of the Company in the principal amount of US$3,055 (the "Loan Debentures"); and (ii) issued and sold to Sentient 9.0% senior unsecured convertible debentures of the Company in the principal amount of US$7,000 (the "Investment Debentures").

In connection with the transaction, the Company also paid to Sentient an establishment fee of 2% of the amount of Investment Debentures, which fee was satisfied by the Company through the issuance of US$140 principal amount of 9% senior unsecured convertible debentures (the "Establishment Fee Debentures", and together with the Loan Debentures and the Investment Debentures, the "Debentures").

The Debentures will mature on June 30, 2016 (the "Maturity Date") and will bear interest from and including the date of issuance at the rate of 9% per annum, payable in equal semi-annual instalments on April 30 and October 30 in each year, commencing October 30, 2014 until the Maturity Date. Interest payable on the Debentures will be paid by the Company through the issuance of additional debentures (the "Interest Debentures") which will be issued in substantially the same terms as the Debentures.

The Debentures and Interest Debentures are convertible, at the option of Sentient, into common shares or Chess Depositary Interests ("CDIs") of the Company at a conversion price of CDN$0.015 per common share or CDI. The conversion price of the Debentures and Interest Debentures will be adjusted in the event there is a reorganisation of capital or an issue of new common shares below the conversion price. The Debentures and Interest Debentures will be jointly issued by the Company and the PNG Subsidiaries and will be guaranteed by Marengo Mining (Australia) Limited and Yandera Mining Company (Holdings) Pty Limited (both wholly-owned subsidiaries of the Company).

Sentient and its related entities held approximately 22% of the issued and outstanding common shares of the Company as at June 30, 2014 and would hold approximately 80% of the common shares of the Company, assuming the conversion of all the Debentures issued in connection with the Transaction (including the Interest Debentures issued to pay interest payments on the Debentures), as well as the conversion by Sentient of all debentures issued and issuable under the prior debentures financing between the Company and Sentient completed earlier this year (the "January Debentures"). In connection with the issuance of the Debentures pursuant to the terms of the January Debentures, the conversion price of January Debentures will be adjusted from CDN$0.02 to CDN$0.015 per common share or CDI, being the same conversion price as the Debentures.