MARENGO
Mining Limited

Condensed Interim Consolidated Financial Statements

Three months ended September 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 condensed interim 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") as issued by the International Accounting Standards Board with International Accounting Standard, Interim Financial Reporting ("IAS 34"). Management acknowledges responsibility for the preparation and presentation of the condensed interim 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 condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfils its financial reporting responsibilities.

"signed"
Pieter Britz
President and Chief Executive Officer

"signed"
Alexander Dann
Chief Financial Officer

November 13, 2014

MARENGO
Mining Limited

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Stated in thousands of U.S. dollars)

	Notes	September 30, 2014	June 30, 2014
CURRENT ASSETS			
Cash and cash equivalents	4	2,139	421
Investments – term deposits	4,5	2,056	99
Receivables and other current assets	6	231	318
TOTAL CURRENT ASSETS		**4,426**	**838**
NON-CURRENT ASSETS			
Property, plant and equipment	7	564	610
Exploration and evaluation assets	8	158,048	160,855
TOTAL NON-CURRENT ASSETS		**158,612**	**161,465**
TOTAL ASSETS		**163,038**	**162,303**
CURRENT LIABILITIES			
Trade and other payables	9	2,464	2,402
Provisions	10	226	663
Loans and borrowings	11	-	3,046
Derivative financial instrument	12	24,268	14,581
TOTAL CURRENT LIABILITIES		**26,958**	**20,692**
NON-CURRENT LIABILITIES			
Loans and borrowings	11	23,086	17,222
TOTAL NON-CURRENT LIABILITIES		**23,086**	**17,222**
TOTAL LIABILITIES		**50,044**	**37,914**
SHAREHOLDERS' EQUITY			
Share capital	13	188,299	187,242
Contributed surplus	14	2,372	2,395
Accumulated comprehensive losses		(77,677)	(65,248)
TOTAL EQUITY		**112,994**	**124,389**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**163,038**	**162,303**

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 15)

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

Approved by the Board of Directors on November 13, 2014

"signed"	"signed"
John Hick Chairman	David Danziger Audit Committee Chair

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	Three months ended September 30, 2014	2013
EXPENSES			
General and administration expenses		(1,454)	(1,112)
Depreciation	7	(46)	(69)
Exploration and evaluation assets written-off	8	(5)	-
Net foreign exchange loss		(6)	(49)
Share-based payment recovery	14	23	554
		(1,488)	**(676)**
OTHER ITEMS			
Interest income		-	15
Other loss	12	(2,499)	(462)
Financing costs	11	(3,331)	(1,204)
		(5,830)	**(1,651)**
NET LOSS FOR THE PERIOD		**(7,318)**	**(2,327)**
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		(5,111)	(23,626)
Other comprehensive loss for the period, net of tax		**(5,111)**	**(23,626)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED		**(12,429)**	**(25,953)**
Basic and diluted loss per share		(0.64)	(0.21)
Weighted average shares outstanding		1,137,870,521	1,137,870,521

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - 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, 2013		**187,729**	**3,156**	**1,786**	**(32,447)**	**160,224**
Net loss for the period		-	-	-	(2,327)	(2,327)
Other comprehensive income that may be reclassified to the profit and loss		-	-	(23,626)	-	(23,626)
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(23,626)**	**(2,327)**	**(25,953)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	13	-	-	-	-	-
Share transaction costs	13	(22)	-	-	-	(22)
Exchange differences on restatement of equity items to presentation currency		(285)	-	-	-	(285)
Employees and consultants share options	14	-	(554)	-	-	554
BALANCE AT SEPTEMBER 30, 2013		**187,422**	**2,602**	**(21,840)**	**(34,774)**	**133,410**
BALANCE AT JULY 1, 2014		**187,242**	**2,395**	**(19,153)**	**(46,095)**	**124,389**
Net loss for the period		-	-	-	(7,318)	(7,318)
Other comprehensive income that may be reclassified to the profit and loss		-	-	(3,932)	-	(3,932)
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(3,932)**	**(7,318)**	**(11,250)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	13	-	-	-	-	-
Financing transaction costs		-	-	-	-	-
Exchange differences on restatement of equity items to presentation currency		1,057	-	(1,179)	-	(122)
Employees and consultants share options	14	-	(23)	-	-	(23)
BALANCE AT SEPTEMBER 30, 2014		**188,299**	**2,372**	**(24,264)**	**(53,413)**	**112,994**

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

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Condensed Interim Consolidated Statements of Cash Flows

(Unaudited - Stated in thousands of U.S. dollars)

	Notes	Three months ended September 30, 2014	2013
CASH FLOWS USED IN OPERATING ACTIVITIES			
Loss for the period		(7,318)	(2,327)
Items not affecting cash:			
Depreciation	7	46	69
Share based compensation recovery	14	(23)	(554)
Write-down of exploration and evaluation assets	8	5	-
Fair value of derivative liability loss	12	2,499	462
Interest accrued on debentures	11	3,331	1,204
Changes in working capital	17	130	509
Net cash used in operating activities		**(1,330)**	**(637)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
(Increase) / decrease in term deposits		(1,957)	698
Interest received		-	20
Additions to property, plant and equipment	7	(12)	-
Additions to exploration and evaluation assets (includes changes in working capital)	8	(1,718)	(4,929)
Net cash used in investing activities		**(3,687)**	**(4,211)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	11	7,000	6,000
Direct financing costs		(194)	(22)
Net cash provided by financing activities		**6,806**	**5,978**
Increase in cash and cash equivalents for the period		1,789	1,130
Cash and cash equivalents, beginning of the period		421	1,667
Effect of foreign exchange rate changes on cash and cash equivalents		(71)	(26)
Cash and cash equivalents, end of the period		**2,139**	**2,771**

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

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Notes to the Condensed Interim Consolidated Financial Statements for the Three Months Ended September 30, 2014

(Unaudited - 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.

The Company incurred a comprehensive loss for the three months ended September 30, 2014 of $12,429 (September 30, 2013 - $25,953) and reported accumulated comprehensive losses of $77,677 as at September 30, 2014 (June 30, 2014 - $65,248). The Company had a working capital deficiency of $22,532 (June 30, 2014 - $19,854). The Company's sole source of funding has been the issuance of convertible debt and other loan instruments, and equity securities.

As at September 30, 2014, the Company had $4,148 in available cash and cash equivalents and short term deposits (June 30, 2014 - $421). 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 quarter-end as described in Note 20.

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 condensed interim 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 September 30, 2014. Different basis of measurement may be appropriate when a Company is not expected to continue operations for the foreseeable future.

These condensed interim 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 condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 13, 2014.

(2) BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These condensed interim consolidated financial statements were prepared in accordance with IFRS, including IAS 34 Interim Financial Statements. The condensed interim consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual financial statements for the year ended June 30, 2014. Any subsequent changes to IFRS that are reflected in the Company's consolidated financial statements for the year end in June 30, 2015 could result in restatement of these condensed interim consolidated financial statements.

(b) Basis of Preparation

These condensed interim 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.

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended June 30, 2014.

(c) Basis of consolidation

The condensed interim 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.

(3) CHANGES IN ACCOUNTING POLICIES

(a) Changes of Accounting Policies

The Company has adopted the following new and revised standards. These changes were made in accordance with the applicable transitional provisions.

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 adoption of this interpretation did not result in any impact to the Company's financial statements.

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. The adoption of this amendment did not result in any impact to the Company's financial statements.

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. This amendment is effective for annual periods beginning on or after January 1, 2014. The adoption of this amendment did not result in any impact to the Company's financial statements.

IFRS 2 "Share Based Payment"

The IASB published amendments to IFRS 2 to provide clarification on the definition of a "vesting condition" and separately defines "performance condition" and "service condition". The amendments are effective which the grant date is on or after July 1, 2014. The adoption of these amendments did not result in significant impact to the Company's financial statements.

IFRS 3 “Business Combinations"

The IASB published amendments to clarify that an obligation to pay contingent consideration which meets the definition of an financial instrument is classified as a financial liability or as equity, on the basis of the definition in IAS 32, "Financial Instruments - Presentation". The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. These amendments are effective for annual periods beginning on or after July 1, 2014. The adoption of these amendments did not result in any impact to the Company's financial statements.

IAS 39 "Financial Instruments: Recognition and Measurement"

The IASB published amendments to IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedge instrument to a central counterparty meets specified criteria. The adoption of this amendment did not result in any impact to the Company's financial statements.

(b) Standards, Interpretations and Amendments Not Yet Effective

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.

(4) CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

Cash and cash equivalents consisted of $2,139 (June 30, 2014 - $421). The Company held $2,056 in short term deposits (June 30, 2014 - $99), with maturity greater than 90 days but 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 $47 (June 30, 2014 - $99) in term deposits relating to the bank guarantees with a third party supplier.

(6) RECEIVABLES AND OTHER CURRENT ASSETS

Receivables of $101 (June 30, 2014 - $49) consisted of harmonized sales tax ("HST"), good services tax ("GST") and other miscellaneous receivables.

The remaining balance in other current assets of $130 (June 30, 2014 - $269) relates primarily to prepaid expenditures.

(7) PROPERTY, PLANT AND EQUIPMENT

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

	Land and Buildings	Furniture, Fittings and Equipment	Vehicles	Total
Cost				
Balance – June 30, 2014	**145**	**1,684**	**405**	**2,234**
Additions	-	12	-	12
Foreign exchange	(2)	(8)	(2)	(12)
Balance – September 30, 2014	**143**	**1,688**	**403**	**2,234**
Accumulated Depreciation				
Balance – June 30, 2014	**63**	**1,232**	**329**	**1,624**
Depreciation	7	28	11	46
Balance – September 30, 2014	**70**	**1,260**	**340**	**1,670**
Carrying Amount				
As at June 30, 2014	82	452	76	610
As at September 30, 2014	**73**	**428**	**63**	**564**

(8) EXPLORATION AND EVALUATION ASSETS

	September 30, 2014	June 30, 2014
Opening net cost amount	160,855	173,667
Foreign exchange	(4,101)	(20,847)
Expenditures capitalised during the period	1,299	8,248
Expenditures written-off during the period	(5)	(213)
Closing Balance	**158,048**	**160,855**

During the period ended September 30, 2014, the Company had written-off $5 of exploration and evaluation expenditures relating to two tenements that were relinquished during the period.

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:

	September 30, 2014	June 30, 2014
Trade payables	920	1,154
Accrued liabilities	1,544	1,248
	2,464	**2,402**

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(10) PROVISIONS

Provisions include the following components:

	September 30, 2014	June 30, 2014
Employee benefits	226	663
	226	**663**

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:

	September 30, 2014	June 30, 2014
Current debt:		
Sentient Loan	-	3,046
Total current debt	**-**	**3,046**
Long term debt:		
9% Convertible Debentures	23,086	17,222
Total long term debt	**23,086**	**17,222**

Sentient Loan

On April 29, 2014, the Company had signed a loan agreement with Sentient. Under the terms of the loan agreement, Sentient provided the Company a loan facility of $3,000. The loan accrued interest monthly at a rate of 9% per annum, payable quarterly. The maturity date of the loan was December 31, 2014. Subject to applicable shareholder and regulatory approvals, the principal and interest accrued on the loan was to be payable by the Company through issuance of common shares or other securities convertible into common shares of the Company.

On June 2, 2014, the Company had entered into a loan conversion and debenture purchase agreement (the "Agreement") with Sentient. Pursuant to the terms of this Agreement, on July 15, 2014, the Company 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 of $55 into 9.0% senior unsecured convertible debentures of the Company in the principal amount of $3,055 (the "Loan Debentures").

Convertible Debentures

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 was 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 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 was 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 $721 in principal amount of convertible unsecured debentures to satisfy the first interest instalment payment due. The total cumulative interest on convertible debenture recognized and expensed in the statement of consolidated statements of loss and comprehensive loss was $6,339 as of June 30, 2014 and $3,331 as of September 30, 2014 (September 30, 2013 - $1,204).

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, along with interest 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"). In aggregate, the Company incurred $334 of financing costs directly attributable to this transaction which have been netted against the host liability.

The Debentures mature on June 30, 2016 (the "Maturity Date") and bear interest from and including the date of issuance at the rate of 9% per annum, payable on 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.

Consistent with the Company's accounting policy, the convertible debentures were initially measured at fair value, net of direct expenses, then subsequently at amortized cost. The fair value of the convertible debentures was $5,214, net of direct costs.

The transaction completed on July 15, 2014 resulted in a substantial modification of the terms of the existing convertible unsecured debentures issued on January 15, 2014. The conversion price was reduced from C$0.02 to C$0.015 and the maturity date of the loan dated April 29, 2014 was amended from December 31, 2014 to June 30, 2016. The modified terms significantly change the discounted present value of cash flows. As a result, the existing debentures were extinguished and new fair value of convertible debentures was recognized. An extinguishment of the original financial liability of $13,589 resulted in $1,347 increase to the fair of the new financial liability of $14,936.

(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 September 30, 2014, the fair value of the derivative liability was $24,268 (June 30, 2014 - $14,581). For the period ended September 30, 2014, the Company recorded a loss of $2,499 resulting from the fair value measurement (September 30, 2013 $462 loss). 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 September 30, 2014, July 15, 2014 and June 30, 2014 were as follows:

	September 30, 2014	**July 15, 2014**	**June 30, 2014**
9% Convertible Debentures			
Risk free interest rate	1.12%	1.09%	1.09%
Volatility	144%	156%	156%
Remaining life (years)	1.75	2	2

(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 period ended September 30, 2014 and September 30, 2013.

Share capital outstanding at September 30, 2014 and September 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 period ended September 30, 2014. The Company had no warrants outstanding at the end of September 30, 2014 and September 30, 2013. Total of 56,710,780 warrants expired during the period ended September 30, 2013.

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 September 30, 2014, the Company had 44,968,526 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.

A summary of option activity under the Plan during the three months ended September 30 are as follows:

	Number of Stock Options	Weighted Average Exercise Price- C$
Balance, June 30, 2014	1,750,000	0.22
Granted	11,000,000	0.015
Forfeited	(825,000)	0.24
Balance, September 30, 2014	**11,925,000**	**0.03**
Exercisable, September 30, 2014	**4,591,667**	**0.05**

The fair value of option grants is estimated at the grant date using the Black-Scholes option-pricing model. Options granted to directors and senior management during the period ended September 30, 2014 totalled 11,000,000 with an average exercise price of C$0.015 per share and expiry date of five years from the date of grant. There were no options granted during the period ended September 30, 2013.

Fair values of options granted during the period ended September 30, 2014 were based on assumptions noted in the following table:

Grant	2014
Exercise price	C$0.015
Risk-free interest rate	1.48%
Annualized expected volatility	157%
Expected life of options	5
Dividend rate	0%
Forfeiture rate	0%
Fair value per option	C$0.014

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 300,000 of performance rights outstanding at the end of September 30, 2014 consist of performance rights "A". 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. All performance rights not vested by September 6, 2017 will lapse.

The following table reflects activity of performance rights for the period ended September 30, 2014.

	Number of Performance Rights	Weighted Average Exercise Price- C$
Balance, June 30, 2014	6,800,000	0.00
Expired	-	-
Forfeited	(6,500,000)	0.00
Balance, September 30, 2014	**300,000**	**0.00**
Exercisable, September 30, 2014	**-**	**-**

The forfeited performance rights are 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 September 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		0.2	100,000	
A$0.25	25,000		0.2	25,000	
A$0.22	100,000		0.9	100,000	
A$0.32	125,000		1.2	125,000	
A$0.19	75,000		1.1	75,000	
A$0.24	150,000		1.1	150,000	
C$0.13	350,000		2.8	350,000	
C$0.015	11,000,000		4.8	3,666,667	
Total Options	**11,925,000**	**C$0.03**		**4,591,667**	**C$0.05**
Performance Rights	300,000		3.0	-	C$0.00
	12,225,000			**4,591,667**	

Share-Based Compensation

Net share-based compensation expense resulted in recovery amount of $23 for the period ended September 30, 2014, (September 30, 2013 - $554). 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 periods. 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 September 30, 2014.

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

	Less than 1 year	1 - 5 years	Total
Exploration commitments	110	329	439
Total	**110**	**329**	**439**

(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:

	Three months ended September 30,	
	2014	**2013**
Salaries, wages and other benefits	426	570
Severances[1]	654	-
Share-based compensation	55	-
Total	**1,135**	**570**

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

Other Related Party Transactions

(a) Transaction with Sentient

During the period ended September 30, 2014, the Company completed a convertible debenture transaction with its major shareholder, Sentient. Details of this transaction are described in the Note 11 above.

(17) SUPPLEMENTAL CASH FLOW INFORMATION

Changes in working capital for the three months ended September 30, 2014 and 2013 are as follows:

	2014	**2013**
Decrease in accounts receivable and other current assets	87	203
(Decrease)/increase in accounts payable and accrued liabilities	252	438
Decrease in provisions	(209)	(132)
Total changes in working capital	**130**	**509**

(18) 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 September 30, 2014 and June 30, 2014:

As of September 30, 2014	**Level 1**	**Level 2**	**Level 3**
Financial Liabilities			
Fair value through profit or loss:			
Derivative liability - Debentures conversion option	-	24,268	-
	-	24,268	-

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	-

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 12.

(19) OPERATIONS BY SEGMENT AND GEOGRAPHIC AREA

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

(20) SUBSEQUENT EVENTS

In October, 2014, the Company received confirmation from the Mineral Resources Authority in Papua New Guinea that the mining license for its main tenement, Yandera, was successfully renewed until November, 2015.

On November 13, 2014, The Company (together with its wholly-owned subsidiaries, Marengo Mining (PNG) Limited and Yandera Mining Company Limited, collectively, the "PNG Subsidiaries") has agreed to terms and in principle for a financing of up to $7,500 with its major shareholder Sentient. The use of proceeds will primarily be for a new drilling program, operations, working capital and general corporate purposes. Assuming they fulfil certain conditions precedent, including receipt of shareholder and TSX and ASX approvals, Sentient and Marengo plan to complete the financing in December 2014.