MARENGO
Mining Limited

Condensed Interim Consolidated Financial Statements

Three and nine months ended March 31, 2015 and 2014

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

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Management's Responsibility for Financial Reporting

The condensed interim consolidated financial statements along with 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, including International Accounting Standard 34, 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

May 11, 2015

Condensed Interim Consolidated Statements of Financial Position

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

	Notes	March 31, 2015	June 30, 2014
CURRENT ASSETS			
Cash and cash equivalents	4	2,803	421
Short term investments	4	4,000	-
Restricted cash	5	47	99
Receivables and other current assets	6	241	318
TOTAL CURRENT ASSETS		**7,091**	**838**
NON-CURRENT ASSETS			
Property, plant and equipment		473	610
Exploration and evaluation assets	7	147,910	160,855
TOTAL NON-CURRENT ASSETS		**148,383**	**161,465**
TOTAL ASSETS		**155,474**	**162,303**
CURRENT LIABILITIES			
Trade and other payables	8	1,975	2,402
Employee benefits		183	663
Loans and borrowings	9	-	3,046
Derivative financial instruments	10	20,184	14,581
TOTAL CURRENT LIABILITIES		**22,342**	**20,692**
NON-CURRENT LIABILITIES			
Loans and borrowings	9	37,183	17,222
TOTAL NON-CURRENT LIABILITIES		**37,183**	**17,222**
TOTAL LIABILITIES		**59,525**	**37,914**
SHAREHOLDERS' EQUITY			
Share capital	11	189,876	187,242
Contributed surplus	12	2,389	2,395
Accumulated comprehensive losses		(96,316)	(65,248)
TOTAL EQUITY		**95,949**	**124,389**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**155,474**	**162,303**

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 13)

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

Approved by the Board of Directors on May 11, 2015

"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 March 31, 2015	Three months ended March 31, 2014	Nine months ended March 31, 2015	Nine months ended March 31, 2014
EXPENSES					
General and administration expenses		(845)	(2,012)	(3,244)	(4,073)
Depreciation		(19)	(53)	(102)	(184)
Exploration and evaluation assets written-off	7	9	-	(512)	-
Net foreign exchange loss		(8)	(1)	(34)	(3)
Share-based payment (expense) recovery	12	(10)	(68)	6	409
		(873)	**(2,134)**	**(3,886)**	**(3,851)**
OTHER ITEMS					
Interest income		2	12	3	58
Other (loss) gain	10	(9,563)	(5,962)	894	(5,856)
Financing costs	9	(2,981)	(1,896)	(9,680)	(3,927)
		(12,542)	**(7,846)**	**(8,783)**	**(9,725)**
NET LOSS FOR THE PERIOD		**(13,415)**	**(9,980)**	**(12,669)**	**(13,576)**
OTHER COMPREHENSIVE LOSS					
Items that may be reclassified to profit and loss					
Exchange differences on translation of foreign operations		(6,268)	(20,782)	(18,399)	(41,087)
Other comprehensive loss for the period, net of tax		**(6,268)**	**(20,782)**	**(18,399)**	**(41,087)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED		**(19,683)**	**(30,762)**	**(31,068)**	**(54,663)**
Basic loss per share		(0.01)	(0.01)	(0.01)	(0.01)
Diluted loss per share		(0.01)	(0.01)	(0.01)	(0.01)
Weighted average basic shares outstanding		1,137,870,521	1,137,870,521	1,137,870,521	1,137,870,521
Weighted average diluted shares outstanding		6,073,211,183	1,137,870,521	5,509,972,211	1,137,870,521

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

MARENGO
Mining Limited

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		-	-	-	(13,576)	(13,576)
Other comprehensive income that may be reclassified to the profit and loss		-	-	(41,087)	-	(41,087)
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(41,087)**	**(13,576)**	**(54,663)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	11	-	-	-	-	-
Share transaction costs	11	(24)	-	-	-	(24)
Exchange differences on restatement of equity items to presentation currency		(169)	-	-	-	(169)
Employees and consultants share options	12	-	(409)	-	-	(409)
BALANCE AT MARCH 31, 2014		**187,536**	**2,747**	**(39,301)**	**(46,023)**	**104,959**
BALANCE AT JULY 1, 2014		**187,242**	**2,395**	**(19,153)**	**(46,095)**	**124,389**
Net loss for the period		-	-	-	(12,669)	(12,669)
Other comprehensive income that may be reclassified to the profit and loss		-	-	(19,233)	-	(19,233)
TOTAL COMPREHENSIVE INCOME (LOSS)		**-**	**-**	**(19,233)**	**(12,669)**	**(31,902)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the period	11	-	-	-	-	-
Financing transaction costs		-	-	-	-	-
Exchange differences on restatement of equity items to presentation currency		2,634	-	834	-	3,468
Employees and consultants share options	12	-	(6)	-	-	(6)
BALANCE AT MARCH 31, 2015		**189,876**	**2,389**	**(37,552)**	**(58,764)**	**95,949**

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

MARENGO
Mining Limited

Condensed Interim Consolidated Statements of Cash Flows

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

	Notes	Nine months ended March 31, 2015	2014
CASH FLOWS USED IN OPERATING ACTIVITIES			
Loss for the period		(12,669)	(13,576)
Items not affecting cash:			
Depreciation		102	184
Share based compensation recovery	12	(6)	(409)
Write-down of exploration and evaluation assets	7	512	-
Fair value of derivative liability gain	10	(894)	5,856
Interest accrued on debentures	9	9,680	3,927
Changes in working capital	15	(365)	805
Net cash used in operating activities		**(3,640)**	**(3,213)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
(Increase) /decrease in term deposits		(3,948)	5,080
Interest received		1	67
Proceeds from sale of property, plant and equipment		-	37
Additions to property, plant and equipment		(12)	-
Additions to exploration and evaluation assets (includes changes in working capital)	7	(3,832)	(8,578)
Net cash used in investing activities		**(7,791)**	**(3,394)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	9	14,500	6,000
Direct financing costs	9	(339)	(24)
Net cash provided by financing activities		**14,161**	**5,976**
Increase (decrease) in cash and cash equivalents for the period		2,730	(631)
Cash and cash equivalents, beginning of the period		421	1,667
Effect of foreign exchange rate changes on cash and cash equivalents		(348)	(149)
Cash and cash equivalents, end of the period		**2,803**	**887**

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

Notes to the Condensed Interim Consolidated Financial Statements for the Three and Nine Months Ended March 31, 2015

(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 nine months ended March 31, 2015 of $31,068 (March 31, 2014 - $54,663) and reported accumulated comprehensive losses of $96,316 as at March 31, 2014 (June 30, 2014 - $65,248). The Company had a working capital deficiency of $15,251 (June 30, 2014 - $19,854). The Company's sole source of funding has been the issuance of convertible debt, other loan instruments and equity securities.

As at March 31, 2015, the Company had $2,803 in available cash and cash equivalents (June 30, 2014- $421) and $4,000 in short term investments (June 30, 2014 - $nil). 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, which consists of 3 entities controlled by The Sentient Group ("Sentient"), has to date provided financial assistance to the Company. Note 9 sets out the details of the restructuring of the Company's financial commitments with Sentient and financing transactions completed to date.

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 March 31, 2015. 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 May 5, 2015.

(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 ending 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), and 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, except as listed in Note 3 (a).

(c) Basis of consolidation

The condensed interim consolidated financial statements incorporate the financial statements 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 INVESTMENTS

Cash and cash equivalents consisted of $2,803 (June 30, 2014 - $421). The Company held $4,000 in short term investments comprised of notice deposit account (June 30, 2014 - $Nil), cashable on demand except for last $1,000 with 31 days notice. 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 bank guarantees with a third party provider.

(6) RECEIVABLES AND OTHER CURRENT ASSETS

Receivables of $113 (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 $128 (June 30, 2014 - $269) relates primarily to prepaid expenditures.

(7) EXPLORATION AND EVALUATION ASSETS

	Nine months March 31, 2015	Twelve months June 30, 2014
Opening net cost amount	160,855	173,667
Foreign exchange	(15,796)	(20,847)
Expenditures capitalised during the period	3,363	8,248
Expenditures written-off during the period	(512)	(213)
Closing Balance	**147,910**	**160,855**

During the nine-month period ended March 31, 2015, the Company had wrote-off $512 of exploration and evaluation expenditures relating to three tenements that were relinquished during the period.

(8) TRADE AND OTHER PAYABLES

Accounts payable and accrued liabilities include the following components:

	March 31, 2015	June 30, 2014
Trade payables	511	1,154
Accrued liabilities	1,464	1,248
	1,975	**2,402**

(9) LOANS AND BORROWINGS

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

	March 31, 2015	June 30, 2014
Current debt:		
Sentient Loan	-	3,046
Total current debt	**-**	**3,046**
Long term debt:		
9% Convertible Debentures	37,183	17,222
Total long term debt	**37,183**	**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 (the "Debentures") of the Company; and (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.

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.

On July 15, 2014, the Company completed an additional issuance of $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 had: (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 $3,055; 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").

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 $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 liability balance.

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 were convertible, at the option of Sentient, into common shares or CDIs of the Company at a conversion price of C$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.

On December 18, 2014, the Company completed the issuance of $7,500 principal amount of convertible unsecured debentures, (the "December Debentures") to Sentient pursuant to the Agreement dated November 14, 2014, between the Company (together with its wholly-owned subsidiaries Yandera Mining Company Limited and Marengo Mining (PNG) Limited), and Sentient.

The December Debentures mature on June 30, 2017 and bear interest from and including the date of issuance at the rate of 9% per annum, payable on maturity date.

The December Debentures are convertible, at the option of Sentient, into common shares or CDIs of the Company at a conversion price of C$0.01 per common share or CDI. The conversion price of all 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 conversion price of all existing outstanding debentures of the Company held by Sentient pursuant to the terms of prior debenture financings between the Company and Sentient completed earlier this year were also adjusted to C$0.01 per common share or CDI.

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, net of direct costs of the convertible debentures issued on July 15, 2014 and December 18, 2014 was $5,214, and $5,039 respectively.

The transaction completed on July 15, 2014 resulted in a substantial modification of the terms of an 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 changed the discounted present value of cash flows. As a result, the existing debentures were extinguished and new fair values of the convertible debentures were recognized.

The transaction completed on December 18, 2014 further contributed to a substantial modifications of the terms of the existing convertible debentures issued on January 15, 2014 and July 15, 2014. The conversion prices were reduced from C$0.015 to C$0.01. The modified terms significantly change the discounted present value of cash flows. As a result, the existing debentures were extinguished and new fair values of the convertible debentures were recognized. An extinguishment of the original financial liability consisting of debentures issued in January 2014 and July 2014 of $20,150 resulted in an $8,766 increase to the fair value of the new financial liability of $28,916.

The total cumulative interest on convertible debentures recognized and expensed in the consolidated statements of loss and comprehensive loss was $9,680 for the nine months period ended March 31, 2015 (March 31, 2014 - $3,927).

(10) DERIVATIVE LIABILITY

The embedded derivative conversion option feature contained in the debentures is valued using a Black-Scholes option-pricing 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 weekly 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 March 31, 2015, the fair value of the derivative liability was $20,184 (June 30, 2014 - $14,581). The movement in fair value results from fluctuations in assumptions and inputs used to determine the fair value at each reporting period, the most significant of which are the Company's share price, volatility and life of the options.

A summary of the derivative liability activities relating to additions, reductions and changes resulting from the fair value measurement for the three and nine months period ended March 31, 2015 and March 31, 2014 respectively are as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Opening Balance	10,621	770	14, 581	611
Additions to derivative liability during the period	-	13,921	27,991	13,921
Reductions of derivative liability during the period	-	(828)	(13,550)	(563)
Fair value loss (gain) for the period *(note 1)*	9,563	4,650	(8,838)	4,544
Closing Balance	**20,184**	**18,513**	**20,184**	**18,513**

Note 1 - The fair value gain of $8,838 is partially offset by the fair value loss relating to reductions of the derivative liability resulting from extinguishment of the debt on July 15 and December 18, 2014 respectively by $7,944 resulting in a net fair value gain of $894 for the nine months period ended March 31, 2015.

The fair value loss in the prior year is increased by the fair value loss resulting from extinguishment of the debt on January 15, 2014 by $1,312 resulting in a net fair value loss of $5,962 and $5,856 for the three and nine months period ended March 31, 2014 respectively.

Inputs used to determine the fair value on March 31, 2015, December 18, 2014, July 15, 2014 and June 30, 2014 were as follows:

	March 31, 2015	December 18, 2014	July 15, 2014	June 30, 2014
9% Convertible Debentures				
Risk free interest rate	0.50%	1.00%	1.09%	1.09%
Volatility	119%	140%	156%	156%
Remaining life (years) for January and July debentures	1.25 and 2.25	1.5 and 2.5	2	2

(11) 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 nine-month periods ended March 31, 2015 and 2014.

Share capital outstanding at March 31, 2015 and March 31, 2014 was 1,137,870,521 common shares.

(12) CONVERTIBLE SECURITIES - WARRANTS AND OPTIONS

Warrants

There were no new warrants issued or exercised during the three and nine - month periods ended March 31, 2015. The Company had no warrants outstanding at the end of March 31, 2015 and March 31, 2014.

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 March 31, 2015, the Company had 45,343,526 remaining reserved options under the plan with maximum of 56,893,526 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 nine months ended March 31, 2015 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	(1,200,000)	0.23
Balance, March 31, 2015	**11,550,000**	**0.02**
Exercisable, March 31, 2015	**4,216,667**	**0.04**

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 nine months ended March 31, 2015 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 March 31, 2014.

Fair values of options granted during the period ended March 31, 2015 were based on assumptions noted in the following table:

Grant	2015
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

The following table summarizes incentive stock options outstanding at March 31, 2015:

	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$0.22	75,000		0.6	75,000	
A$0.32	75,000		0.9	75,000	
A$0.19	50,000		1.6	50,000	
A$0.24	75,000		1.9	75,000	
C$0.13	275,000		2.9	275,000	
C$0.015	11,000,000		4.3	3,666,667	
Total Options	**11,550,000**	**C$0.02**		**4,216,667**	**C$0.04**

<u>Share-Based Compensation</u>

Share-based compensation resulted in $10 expense for the three - month period ended March 31, 2015, (March 31, 2014 - $68 expense), and a recovery amount of $6 for the nine - months period ended March 31, 2015. (March 31, 2014 - $409 recovery). 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%.

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 following table reflects activity of performance rights for the period ended March 31, 2015.

	Number of Performance Rights	Weighted Average Exercise Price- C$
Balance, June 30, 2014	6,800,000	0.00
Expired	-	-
Forfeited	(6,800,000)	0.00
Balance, March 31, 2015	**-**	**0.00**

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

(13) 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 March 31, 2015.

Future minimum payments under the agreements as at March 31, 2015 are as follows:

	Less than 1 year	1 - 5 years	Total
Exploration commitments	81	243	324
Total	**81**	**243**	**324**

(14) 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:

	Nine months ended March 31,	
	2015	**2014**
Salaries, wages and other benefits	867	1,457
Severances(1)	654	-
Share-based compensation	72	68
Total	**1,593**	**1,525**

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

Other Related Party Transactions

(a) Transaction with Sentient

During the nine-month period ended March 31, 2015, the Company completed two convertible debenture transactions with its major shareholder, Sentient. Details of these transactions are described in the Note 9 above.

(15) SUPPLEMENTAL CASH FLOW INFORMATION

Changes in working capital for the nine months ended March 31, 2015 and 2014 are as follows:

	2015	2014
Decrease in accounts receivable and other current assets	77	639
(Decrease)/increase in accounts payable and accrued liabilities	38	45
(Decrease) / increase in provisions	(480)	121
Total changes in working capital	**(365)**	**805**

(16) 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 March 31, 2015 and June 30, 2014:

As of March 31, 2015	**Level 1**	**Level 2**	**Level 3**
Financial Liabilities			
Fair value through profit or loss:			
Derivative liability - Debentures conversion option	-	20,184	-
	-	20,184	-

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 10.

(17) 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.

(18) SUBSEQUENT EVENTS

On April 22, 2015, the Company announced that the Australian Stock Exchange ("ASX") has provided conditional approval to the Company to delist from the ASX. Following the expected suspension of the Company's CDIs, expected to occur on May 25, 2015, it is anticipated that Marengo will be removed from the official list of the ASX at close of trading on June 2, 2015, at which point Marengo securities will no longer trade on the ASX. Following the Company's removal from the ASX, Marengo securities will only be tradeable on the Toronto Stock Exchange and the Port Moresby Stock Exchange.