MARENGO MINING LIMITED

COMPANY NO. 822513-3 / ARBN: 161 356 930

Interim Consolidated Financial Statements

September 30, 2013

Expressed in US Dollars

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, this report should be read in conjunction with the Consolidated Financial Statements for the year ended June 30, 2013 and any public announcements made by Marengo Mining Limited during the interim reporting period.

Corporate Information

Company No.: 822513-3
ARBN: 161 356 930

Directors
Les Emery (President and Chief Executive Officer)
John Hick (Non Executive Chairman)
Sir Rabbie Namaliu (Non Executive Director)
Elizabeth Martin (Non Executive Director)
Vincent (Ian) Masterton-Hume (Non Executive Director)
Richard William (Keith) Morrison (Non Executive Director)
Pieter Britz (Non Executive Director) – *appointed July 26, 2013*

Company Secretary
Dean Richardson

COMPANY NO. 822513-3 / ARBN: 161 356 930

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WEST PERTH WA 6005 AUSTRALIA

Papua New Guinea
Allens
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PORT MORESBY NCD

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005 AUSTRALIA

Westpac Banking Corporation
109 St Georges Terrace
PERTH WA 6000 AUSTRALIA

ANZ Banking Group (PNG) Limited
Harbour City, Poroporena Freeway
PORT MORESBY NCD

Share Registries

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Telephone: + 675 321 6377
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Auditors
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Stock Exchange Listings
Marengo Mining Limited shares are listed on Toronto Stock Exchange (TSX) as “MRN” and Australian Securities Exchange (ASX) and Port Moresby Stock Exchange (POMSoX) under the code “MMC”.

Contents

Consolidated Statement of Comprehensive Income

THREE MONTHS ENDED	Notes	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)
REVENUE FROM OPERATIONS	3	15	218
Other income	3	554	-
EXPENDITURE			
Administration expenses		(473)	(241)
Corporate expenses		(45)	(582)
Depreciation		(69)	(83)
Insurance expenses		(50)	(56)
Net foreign exchange losses		(49)	(173)
Occupancy expenses		(83)	(143)
Salaries and employee benefits expense		(461)	(481)
Share-based payment expense		-	(66)
Fair value adjustment on derivative liability		(462)	-
Interest expense		(1,204)	-
LOSS BEFORE INCOME TAX		**(2,327)**	**(1,607)**
INCOME TAX EXPENSE		**-**	**-**
LOSS AFTER INCOME TAX		**(2,327)**	**(1,607)**
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		(23,626)	(4,992)
Other comprehensive loss for the period, net of tax		**(23,626)**	**(4,992)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED		**(25,953)**	**(6,599)**
Basic and diluted loss per share (cents per share)		(0.21)	(0.14)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Interim Consolidated Financial Statements.

Consolidated Balance Sheet

AS AT	Notes	September 30, 2013 US$'000	June 30, 2013 US$'000	July 1, 2012 US$'000 (Restated)
CURRENT ASSETS				
Cash and cash equivalents		2,771	1,667	1,014
Investments – term deposits		4,507	5,025	10,364
Trade and other receivables		754	957	743
TOTAL CURRENT ASSETS		**8,032**	**7,649**	**12,121**
NON-CURRENT ASSETS				
Plant and equipment		964	1,154	1,432
Exploration and evaluation	4	152,158	173,667	160,881
TOTAL NON-CURRENT ASSETS		**153,122**	**174,821**	**162,313**
TOTAL ASSETS		**161,154**	**182,470**	**174,434**
CURRENT LIABILITIES				
Trade and other payables		1,053	3,094	6,819
Provisions		908	1,040	1,046
Loans and borrowings	5	10,172	10,668	-
Derivative financial instrument	6	1,338	611	-
TOTAL CURRENT LIABILITIES		**13,471**	**15,413**	**7,865**
NON-CURRENT LIABILITIES				
Loans and borrowings	5	14,273	6,833	-
TOTAL NON-CURRENT LIABILITIES		**14,273**	**6,833**	**-**
TOTAL LIABILITIES		**27,744**	**22,246**	**7,865**
EQUITY				
Contributed equity	7	187,422	187,729	161,669
Reserves		(19,238)	4,942	29,320
Accumulated losses		(34,774)	(32,447)	(24,420)
TOTAL EQUITY		**133,410**	**160,224**	**166,569**

The above Consolidated Balance Sheet should be read in conjunction with the Notes to the Interim Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

THREE MONTHS ENDED SEPTEMBER 30, 2012	Notes	Contributed Equity US$'000	Options and Share-based Payments Reserve US$'000	Foreign Currency Translation Reserve US$'000	Accumulated Losses US$'000	Total US$'000
BALANCE AT JULY 1, 2012 (Restated)		161,669	1,827	27,493	(24,420)	**166,569**
Loss after income tax		-	-	-	(1,607)	**(1,607)**
Other comprehensive loss that may be reclassified to the profit and loss		-	-	(4,992)	-	**(4,992)**
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(4,992)**	**(1,607)**	**(6,599)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	7(b)	19,992	**-**	**-**	**-**	**19,992**
Share transaction costs	7(b)	(1,472)	**-**	**-**	**-**	**(1,472)**
Exchange differences on restatement of equity items to presentation currency	7(b)	3,500	172	**-**	**-**	**3,672**
Employees and consultants share options		-	(66)	-	-	**(66)**
BALANCE AT SEPTEMBER 30, 2012 (Restated)		**183,689**	**1,933**	**22,501**	**(26,027)**	**182,096**
THREE MONTHS ENDED SEPTEMBER 30, 2013						
BALANCE AT JULY 1, 2013		187,729	3,156	1,786	(32,447)	**160,224**
Loss after income tax		**-**	**-**	**-**	(2,327)	**(2,327)**
Other comprehensive loss 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						
Share transaction costs	7(b)	(22)	**-**	**-**	**-**	**(22)**
Exchange differences on restatement of equity items to presentation currency	7(b)	(285)	-	**-**	**-**	**(285)**
Employees and consultants share options		**-**	(554)	**-**	**-**	**(554)**
BALANCE AT SEPTEMBER 30, 2013		**187,422**	**2,602**	**(21,840)**	**(34,774)**	**133,410**

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

Consolidated Statement of Cash Flows

THREE MONTHS ENDED	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,001)	(2,706)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(1,001)**	**(2,706)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in term deposits	698	10,589
Interest received	20	65
Payments for plant and equipment	-	(424)
Payments for Feasibility Study expenses	(4,565)	(10,007)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(3,847)**	**223**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	-	19,992
Proceeds from borrowings	6,000	-
Payment of share issue costs	(22)	(1,472)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**5,978**	**18,520**
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,130	16,037
Cash and cash equivalents at the beginning of the financial period	1,667	1,014
Effects of exchange rate changes on cash and cash equivalents	(26)	9
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	**2,771**	**17,060**

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

Notes to the Interim Consolidated Financial Statements

SEPTEMBER 30, 2013

1. SUMMARY OF EXISTING ACCOUNTING POLICIES

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

(a) Basis of preparation

Compliance with IFRS

The condensed interim consolidated financial statements of Marengo Mining Limited have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting.* The accounting policies applied in these interim consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended June 30, 2013. There have been no changes from the accounting policies applied in the June 30, 2013 audited consolidated financial statements, except as disclosed in Note 1(b).

Historical cost convention

These interim consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Going Concern

As at September 30, 2013, the Group had a working capital deficiency of $5,439,000 (FY 2013: $7,764,000). The Group also recorded a loss of $2,327,000 for the quarter (Q1 2013: loss of $1,607,000), had net cash outflows from operations of $1,001,000 (Q1 2013: $2,706,000), including incurred expenditure of $4,565,000 (Q1 2013: $10,007,000) on the ongoing feasibility study being undertaken at the Yandera Project.

Given the extensive nature of the feasibility study and the additional optimisation opportunities currently being considered, Marengo's major shareholder, Sentient Executive GP IV (Sentient) initially provided an unsecured, interest bearing working capital facility of $10,000,000, repayable on December 31, 2013. On May 27, 2013 Marengo also entered into a debenture purchase agreement with Sentient, whereby Marengo issued 15,000 convertible notes for $15,000,000 in three tranches. As at September 30, 2013 the facility has been drawn in full.

The working capital facility of $10,000,000 is currently repayable on December 31, 2013. The $5,439,000 working capital deficiency reflected on the balance sheet as at September 30, 2013 was predominantly a result of this maturing liability. The Directors are currently in ongoing discussions with Sentient regarding the debt rearrangement of this working capital facility, in parallel with efforts to source new or additional sources of funding. There is no certainty or contractual obligation yet agreed with respect to debt restructuring however, the Directors advise that negotiations are progressing positively.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Group being successful in:

i) receiving the continuing support of its shareholders, particularly for the Group's effort to restructure the maturity of the $10,000,000 working capital facility that is currently repayable on December 31, 2013; and
ii) raising additional funds as necessary, either through debt, asset sales, or equity.

The Directors remain of the opinion that the lender (Sentient) will agree to a restructure of these financial commitments and it is on this basis, with the benefit of the knowledge of ongoing discussions with the lender, that the Directors have formed a view of the Group's ability to continue as a going concern. The Directors acknowledge that equity markets have continued to be particularly challenging in recent times.

As a result of these matters, there continues to be material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, may not be able to realise its assets and settle its liabilities and commitments in the normal course of the business and at the amounts stated in the financial report.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

1. SUMMARY OF EXISTING ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Going Concern (continued)

However, the Directors are of the opinion that, as at the date of these interim consolidated financial statements, the Group is a going concern and, as a result, the financial report for the quarter ended September 30, 2013 does not include any adjustments relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Change of Accounting Policy

During the 2013 financial year the Group 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 Group has elected to change its presentation currency from AUD to USD. The change in presentation currency is to better reflect the Company's business activities, its re-domicile to North America and to improve comparability with the Group's peers in the mining industry. The change in presentation currency represents a change in accounting policy, which has been applied retrospectively.

(b) New standards adopted by the group

(i) IFRS 7 *Financial Instruments: Disclosures*

This standard was amended to provide additional information regarding the effect or potential effect of offsetting financial assets and financial liabilities. This amendment to the standard does not affect the Group's accounting policies or disclosures as financial assets and liabilities are not offset.

(ii) IAS 19 *Employee benefits (applies to periods beginning on or after January 1, 2013)*

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans are recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The definition of short-term benefits has been revised, meaning some annual leave entitlements may become long-term in nature with a revised measurement. Similarly the timing for recognising a provision for termination benefits has been revised, such that provisions can only be recognised when the offer cannot be withdrawn. This standard does not affect the Group's accounting policies or any amounts recognised in the financial statements.

(iii) IFRS 13 *Fair Value Measurement (applies to periods beginning on or after January 1, 2013)*

This Standard establishes a single source of guidance for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted under IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The method of fair value measurement is consistent with that set out by IFRS 13; additional disclosures will be required under IFRS 13 at year end. The disclosures required by IAS 34 are included in these interim consolidated financial statements.

(iv) IFRS 10 *Consolidated Financial Statements (applies to periods beginning on or after January 1, 2013)*

This Standard establishes a new control model that applies to all entities. It replaces parts of IAS 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This standard does not affect the Group's accounting policies or any amounts recognised in the financial statements.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

1. SUMMARY OF EXISTING ACCOUNTING POLICIES (continued)

(b) New standards adopted by the group (continued)

(v) IFRS *11 Joint Arrangements (applies to periods beginning on or after January 1, 2013)*
This Standard replaces IAS 131 *Interests in Joint Ventures* and SIC-13 *Jointly-Controlled Entities – Non-monetary Contributions by Ventures*. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint arrangements that give the venturers a right to the net assets will be accounted for using the equity method. IFRS 11 does not have any impact on the amounts recognised in the financial statements.

(vi) IFRS 12 *Disclosure of Interests in Other Entities (applies to periods beginning on or after January 1, 2013)*
This Standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. Application of this standard by the Group does not affect any of the amounts recognised in the financial statements.

(c) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2013 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact the financial reporting of the Group.

(i) IFRS 9 *Financial instruments (applies to periods beginning on or after January 1, 2015)*
The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on July 1, 2015.

(d) Critical accounting judgements, estimates and assumptions
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

(i) Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model. At each reporting period the probability that the vesting conditions will be met prior to the expiry date is assessed, this probability is taken into account when determining fair value.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

1. SUMMARY OF EXISTING ACCOUNTING POLICIES (continued)

(d) Critical accounting judgements, estimates and assumptions (continued)

(ii) Exploration and evaluation costs

Exploration and evaluation costs are accumulated and capitalised in relation to each identifiable area of interest where right of tenure of the area of interest is current and the area of interest has not, at reporting date, reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. In the event that tenure is relinquished and/or economically recoverable resources are not assessed as being present, this expenditure will be expensed to profit and loss.

(iii) Derivative Financial Instruments

The fair value of the embedded derivative liability is determined based on a Black Scholes option pricing model to value this liability at each reporting period.

2. SEGMENT INFORMATION

(a) Description of segments

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the profit and loss and balance sheet. The Group operates only in the exploration industry, both in Australia and overseas.

(b) Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the three months ended September 30, 2013 and September 30, 2012 (restated in United States Dollars (USD)) for the segment Conslidated Statement of Comprehensive Income and as at September 30, 2013 and June 30, 2103 for the segment Balance Sheet:

THREE MONTHS ENDED	Australia		Papua New Guinea		Canada		Consolidated	
	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)
Segment revenue								
Revenue from continuing operations	15	218	-	-	-	-	15	218
Total segment revenue	15	218	-	-	-	-	15	218
Intersegment elimination							-	-
Consolidated revenue							**15**	**218**
Segment result								
Segment result	(305)	(14,119)	(149)	(159)	(1,873)	-	(2,327)	(14,278)
Intersegment elimination							-	12,671
Loss before income tax							(2,327)	(1,607)
Income tax expense							-	-
Loss for the year							**(2,327)**	**(1,607)**

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

2. SEGMENT INFORMATION (continued)

(b) Segment information provided to the Board of Directors (continued)

AS AT	Australia		Papua New Guinea		Canada		Consolidated	
	September 30, 2013 US$'000	June 30, 2013 US$'000	September 30, 2013 US$'000	June 30, 2013 US$'000	September 30, 2013 US$'000	June 30, 2013 US$'000	September 30, 2013 US$'000	June 30, 2013 US$'000
Segment assets and liabilities								
Segment assets	32,950	29,093	155,642	178,299	227,282	221,921	415,874	429,313
Intersegment elimination							(254,720)	(246,843)
Total assets							161,154	182,470
Segment liabilities	(228,033)	(224,835)	(165,164)	(160,115)	(26,133)	(18,136)	(419,330)	(403,086)
Intersegment elimination							391,586	380,840
Total liabilities							**(27,744)**	**(22,246)**

	September 30, 2013 US$'000	September 30, 2012 US$'000 (Restated)
3. REVENUE AND INCOME		
From operations		
Interest	15	218
Other income		
Adjustment to share based payment expense(1)	554	-

(1) An adjustment has been made to share based payment expense relating to the performance rights issued on September 6, 2012 and October 12, 2012 to employees and directors. The probability that the vesting conditions of these performance rights would be met prior to the expiry date was previously judged to be 100%, however this probability has been reassessed and reduced thus creating other revenue in the current quarter. The recovery relating to Key Management Personnel is $343,000.

	September 30, 2013 US$'000	June 30, 2013 US$'000	July 1, 2012 US$'000 (Restated)
4. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION			
Opening net book amount	173,667	160,881	91,920
Exchange differences	(23,828)	(19,561)	18,353
Expenditure capitalised during the year	2,319	32,757	50,615
Written off during the year	-	(410)	(7)
Closing net book amount	**152,158**	**173,667**	**160,881**

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.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

	September 30, 2013 US$'000	June 30, 2013 US$'000	July 1, 2012 US$'000 (Restated)
5. LOANS AND BORROWINGS			
Current			
Borrowings[1]	10,172	10,668	-
Non-current			
Convertible note[2]	14,273	6,833	-

(1) On February 6, 2013, the Group entered into a loan agreement with Sentient Executive GP IV Limited (Sentient), for $10,000,000. It is an interest bearing (with a 15% interest rate and 5% facility fee), unsecured facility to provide funding for the completion of the Yandera Project feasibility study and for general working capital purposes and is repayable by December 31, 2013. On August 12, 2013 the Group issued an additional $1,000,000 principal amount of Debentures in satisfaction of the interest accrued and payable up to the end of August 2013, under the existing unsecured facility of $10,000,000 provided by Sentient in February 2013.

(2) On May 27, 2013 the Group entered into a Debenture Purchase Agreement with Sentient, under the agreement the Group issued 15,000 9% convertible notes for $15,000,000 in three tranches with a 2% establishment fee. The notes are 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 September 30, 2013 the full facility has been drawn to a total of $15,000,000.

	September 30, 2013 US$'000	June 30, 2013 US$'000	July 1, 2012 US$'000 (Restated)
6. DERIVATIVE FINANCIAL INSTRUMENT			
Derivative liability[1]	1,338	611	-
	1,338	**611**	**-**

(1) Under the Debenture Purchase Agreement with Sentient, Sentient has the right, up until the maturity date, to convert any or all of the principal amount and/ or accrued interest into shares of the Company at C$0.11 (Canadian Dollars ("C")) per share. The agreement also contains an anti-dilutive provision giving Sentient the right to adopt a lower share price if a capital raising is carried out at a lower share price in the interim. As at September 30, 2013 the fair value of the derivative liability was $1,338,000. The change in fair value for the period was recognised as an expense.

Fair value estimation

The fair value of the derivative financial instrument must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

6. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Fair value estimation (continued)

The following table analyses the classification of the Group's derivative financial instrument within the fair value hierarchy:

US$'000

As at September 30, 2013	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities at fair value through profit or loss:			
Derivative liability - Debenture conversion option	-	1,338	-
	-	1,338	-

As at June 30, 2013	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities at fair value through profit or loss:			
Derivative liability - Debenture conversion option	-	611	-
	-	611	-

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

7. CONTRIBUTED EQUITY

(a) Share capital	September 30, 2013		September 30, 2012	
	Number of shares	US$'000	Number of shares	US$'000 (Restated)
Ordinary shares fully paid	1,137,870,521	187,422	1,137,720,551	183,689
Total contributed equity	**1,137,870,521**	**187,422**	**1,137,720,551**	**183,689**

(b) Movements in ordinary share capital				
Balance at beginning of the period	1,137,870,521	187,729	1,003,745,113	161,669
Transactions during the period:				
– Issued on exercise of options	-	-	642,105	60
– Issued for cash at C$0.15 per share	-	-	133,333,333	19,932
Less: Transaction costs	-	(22)	-	(1,472)
Exchange differences on restatement to USD presentation currency	-	(285)	-	3,500
Balance at end of the period	**1,137,870,521**	**187,422**	**1,137,720,551**	**183,689**

8. CONTINGENCIES

The Group has no contingent liabilities (September 30, 2012: Nil) as at the date of these interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements (continued)

SEPTEMBER 30, 2013

9. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On October 15, 2013 the Company announced it had entered into a Memorandum of Understanding ("MoU") with the Madang Development Corporation to cooperate in, and explore becoming an offtake party, in relation to a power supply solution for industrial, and domestic electricity consumers in Madang Province.

The financial effect, if any, of the above transactions has not been reflected in the consolidated financial statements.