MARENGO
MINING LIMITED

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

Interim Consolidated Financial Statements

December 31, 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*

Corporate Secretary
Dean Richardson
Sander Grieve (Assistant Corporate Secretary)

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

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Bankers

Canada
Royal Bank of Canada
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TORONTO ON M4W 1A8 CANADA

Australia
Westpac Banking Corporation
109 St Georges Terrace
PERTH WA 6000 AUSTRALIA

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

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

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Papua New Guinea
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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

US$'000		THREE MONTHS ENDED		SIX MONTHS ENDED	
	Notes	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)
REVENUE FROM OPERATIONS	3	31	109	46	327
Other income	3	615	23	583	23
EXPENDITURE					
Administration expenses		(336)	(329)	(809)	(570)
Corporate expenses		(209)	(1,128)	(254)	(1,710)
Depreciation		(62)	(88)	(131)	(171)
Insurance expenses		(89)	(100)	(139)	(156)
Net foreign exchange losses		-	-	(2)	(173)
Occupancy expenses		(63)	(107)	(146)	(250)
Salaries and employee benefits expense		(252)	(589)	(713)	(1,070)
Share-based payment expense		(77)	(353)	-	(419)
Interest expense		(827)	-	(2,031)	-
LOSS BEFORE INCOME TAX		**(1,269)**	**(2,562)**	**(3,596)**	**(4,169)**
INCOME TAX EXPENSE		**-**	**-**	**-**	**-**
LOSS AFTER INCOME TAX		**(1,269)**	**(2,562)**	**(3,596)**	**(4,169)**
OTHER COMPREHENSIVE LOSS					
Items that may be reclassified to profit and loss					
Exchange differences on translation of foreign operations		(3,324)	(1,525)	(20,305)	(6,027)
Other comprehensive loss for the period, net of tax		**(3,324)**	**(1,525)**	**(20,305)**	**(6,027)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED		**(4,593)**	**(4,087)**	**(23,901)**	**(10,196)**
Basic and diluted loss per share (cents per share)		(0.11)	(0.23)	(0.32)	(0.37)

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 US$'000	Notes	December 31, 2013	June 30, 2013	July 1, 2012 (Restated)
CURRENT ASSETS				
Cash and cash equivalents		2,248	1,667	1,014
Restricted cash		89	-	-
Investments – term deposits		1,696	5,025	10,364
Trade and other receivables		717	957	743
TOTAL CURRENT ASSETS		**4,750**	**7,649**	**12,121**
NON-CURRENT ASSETS				
Plant and equipment		878	1,154	1,432
Exploration and evaluation	4	158,933	173,667	160,881
TOTAL NON-CURRENT ASSETS		**159,811**	**174,821**	**162,313**
TOTAL ASSETS		**164,561**	**182,470**	**174,434**
CURRENT LIABILITIES				
Trade and other payables		1,139	3,094	6,819
Provisions		1,160	1,040	1,046
Loans and borrowings	5	10,304	10,668	-
Derivative financial instrument	6	770	611	-
TOTAL CURRENT LIABILITIES		**13,373**	**15,413**	**7,865**
NON-CURRENT LIABILITIES				
Loans and borrowings	5	14,967	6,833	-
TOTAL NON-CURRENT LIABILITIES		**14,967**	**6,833**	**-**
TOTAL LIABILITIES		**28,340**	**22,246**	**7,865**
EQUITY				
Contributed equity	7	188,104	187,729	161,669
Reserves		(15,840)	4,942	29,320
Accumulated losses		(36,043)	(32,447)	(24,420)
TOTAL EQUITY		**136,221**	**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

US$'000 SIX MONTHS ENDED DECEMBER 31, 2012	Notes	Contributed Equity	Options and Share-based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
BALANCE AT JULY 1, 2012 (Restated)		161,669	1,827	27,493	(24,420)	**166,569**
Loss after income tax		-	-	-	(4,169)	**(4,169)**
Other comprehensive loss that may be reclassified to the profit and loss		-	-	(6,027)	-	**(6,027)**
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(6,027)**	**(4,169)**	**(10,196)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	7(b)	20,011	-	-	-	**20,011**
Share transaction costs	7(b)	(1,472)	-	-	-	**(1,472)**
Exchange differences on restatement of equity items to presentation currency	7(b)	3,401	(29)	-	-	**3,372**
Employees and consultants share options		-	419	-	-	**419**
BALANCE AT DECEMBER 31, 2012 (Restated)		**183,609**	**2,217**	**21,466**	**(28,589)**	**178,703**
SIX MONTHS ENDED DECEMBER 31, 2013						
BALANCE AT JULY 1, 2013		187,729	3,156	1,786	(32,447)	**160,224**
Loss after income tax		**-**	**-**	**-**	(3,596)	**(3,596)**
Other comprehensive loss that may be reclassified to the profit and loss		-	-	(20,305)	-	**(20,305)**
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(20,305)**	**(3,596)**	**(23,901)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Share transaction costs	7(b)	(24)	**-**	**-**	**-**	**(24)**
Exchange differences on restatement of equity items to presentation currency	7(b)	399	-	**-**	**-**	**399**
Employees and consultants share options		**-**	(477)	**-**	**-**	**(477)**
BALANCE AT DECEMBER 31, 2013		**188,104**	**2,679**	**(18,519)**	**(36,043)**	**136,221**

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

US$'000	THREE MONTHS ENDED December 31, 2013	THREE MONTHS ENDED December 31, 2012 (Restated)	SIX MONTHS ENDED December 31, 2013	SIX MONTHS ENDED December 31, 2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees	(691)	(3,699)	(1,692)	(6,405)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(691)**	**(3,699)**	**(1,692)**	**(6,405)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Funds from/ (investment in) term deposits	2,265	(239)	2,963	10,350
Interest received	33	303	53	368
Payments for plant and equipment	-	(80)	-	(504)
Proceeds on sale of plant and equipment	37	23	37	23
Payments for Feasibility Study expenses	(2,140)	(7,883)	(6,705)	(17,890)
NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES	**195**	**(7,876)**	**(3,652)**	**(7,653)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issues of ordinary shares	-	19	-	20,011
Proceeds from borrowings	-	-	6,000	-
Payment of share issue costs	(2)	-	(24)	(1,472)
NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES	**(2)**	**19**	**5,976**	**18,539**
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(498)	(11,556)	632	4,481
Cash and cash equivalents at the beginning of the financial period	2,771	17,060	1,667	1,014
Effects of exchange rate changes on cash and cash equivalents	(25)	23	(51)	32
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	**2,248**	**5,527**	**2,248**	**5,527**

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

DECEMBER 31, 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 December 31, 2013, the Group had a working capital deficiency of $8,623,000(FY 2013: $7,764,000). The Group also recorded a loss of $3,596,000 for the six months to December 31 (Q2 2013: loss of $4,169,000), had net cash outflows from operations for the six months of $1,692,000 (Q2 2013: $6,405,000), and incurred expenditure of $6,705,000 (Q2 2013: $17,890,000) on the ongoing feasibility study being undertaken at the Yandera Project.

Given the Group's current financial position and the extensive nature of the feasibility study and the additional optimisation opportunities currently being considered, Marengo's major shareholder, Sentient Executive GP IV (Sentient) has agreed to provide financial assistance to the Group. Note 9 sets out the details of the restructure of the Group's financial commitments with Sentient as well as the commitment letter confirming that it will provide financial support including funding for progressing the feasibility study and other operational expenditures to the Group as and when it is needed for 12 months from the date of approval of these interim consolidated financial statements.

With this support from Sentient, 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 three and six months ended December 31, 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 for 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 the 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.

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

1. SUMMRY OF EXISTING ACCOUNTING POLICIES (continued)

(b) New standards adopted by the group

(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.

(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.

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

1. SUMMARY OF EXISTING ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 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.

IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognise changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. The Group is yet to assess IFRS 9's full impact on the consolidated financial statements.

(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.

(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.

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

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 and six months ended December 31, 2013 and December 31, 2012 (restated in United States Dollars (USD)) for the segment Conslidated Statement of Comprehensive Income and as at December 31, 2013 and June 30, 2013 for the segment Balance Sheet:

THREE MONTHS ENDED	Australia		Papua New Guinea		Canada		Consolidated	
US$'000	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)
Segment revenue								
Revenue from continuing operations	31	109	-	-	-	-	31	109
Total segment revenue	31	109	-	-	-	-	31	109
Intersegment elimination							-	-
Consolidated revenue							**31**	**109**
Segment result								
Segment result	(76)	(2,297)	(118)	(158)	(989)	-	(1,183)	(2,455)
Intersegment elimination							(86)	(107)
Loss before income tax							(1,269)	(2,562)
Income tax expense							-	-
Loss for the year							**(1,269)**	**(2,562)**

SIX MONTHS ENDED	Australia		Papua New Guinea		Canada		Consolidated	
US$'000	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)	December 31, 2013	December 31, 2012 (Restated)
Segment revenue								
Revenue from continuing operations	46	327	-	-	-	-	46	327
Total segment revenue	46	327	-	-	-	-	46	327
Intersegment elimination							-	-
Consolidated revenue							**46**	**327**
Segment result								
Segment result	(381)	(16,416)	(268)	(317)	(2,861)	-	(3,510)	(16,733)
Intersegment elimination							(86)	12,564
Loss before income tax							(3,596)	(4,169)
Income tax expense							-	-
Loss for the year							**(3,596)**	**(4,169)**

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

2. SEGMENT INFORMATION (continued)

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

AS AT	Australia		Papua New Guinea		Canada		Consolidated	
US$'000	December 31, 2013	June 30, 2013	December 31, 2013	June 30, 2013	December 31, 2013	June 30, 2013	December 31, 2013	June 30, 2013
Segment assets and liabilities								
Segment assets	30,637	29,093	162,677	178,299	226,663	221,921	419,977	429,313
Intersegment elimination							(255,416)	(246,843)
Total assets							164,561	182,470
Segment liabilities	(227,324)	(224,835)	(160,177)	(160,115)	(26,427)	(18,136)	(413,928)	(403,086)
Intersegment elimination							385,588	380,840
Total liabilities							**(28,340)**	**(22,246)**

US$'000	THREE MONTHS ENDED December 31, 2013	THREE MONTHS ENDED December 31, 2012 (Restated)	SIX MONTHS ENDED December 31, 2013	SIX MONTHS ENDED December 31, 2012 (Restated)
3. REVENUE AND INCOME				
From operations				
Interest	31	109	46	327
Other income				
Gain on sale of plant and equipment	-	23	-	23
Fair value adjustment on derivative liability	568	-	106	-
Net foreign exchange gain	47	-	-	-
Adjustment to share based payment expense(1)	-	-	477	-
Total other income	615	23	583	23

(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 six months to December 31, 2013. The recovery relating to Key Management Personnel for the six months is $389,000

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

US$'000	December 31, 2013	June 30, 2013	July 1, 2012 (Restated)
4. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION			
Opening net book amount	173,667	160,881	91,920
Exchange differences	(20,469)	(19,561)	18,353
Expenditure capitalised during the year	5,735	32,757	50,615
Written off during the year	-	(410)	(7)
Closing net book amount	**158,933**	**173,667**	**160,881**

The book value of exploration and evaluation relates wholly to the Yandera Project.

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.

US$'000	December 31, 2013	June 30, 2013	July 1, 2012 (Restated)
5. LOANS AND BORROWINGS			
Current			
Borrowings(1)	10,304	10,668	-
Non-current			
Convertible note(2)	14,967	6,833	-

(1) On February 6, 2013, the Group entered into a loan agreement with Sentient, for $10,000,000. It was 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 was 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 were unsecured and convertible into ordinary shares of the Company, at the option of the holder, or repayable at the earlier of June 30, 2016 and three years following the closing date of the third tranche. As at December 31, 2013 the full facility had been drawn to a total of $15,000,000.

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

US$'000	December 31, 2013	June 30, 2013	July 1, 2012 (Restated)
6. DERIVATIVE FINANCIAL INSTRUMENT			
Derivative liability(1)	770	611	-
	770	**611**	**-**

(1) Under the Debenture Purchase Agreement with Sentient, Sentient had 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 was carried out at a lower share price in the interim. As at December 31, 2013 the fair value of the derivative liability was $770,000. The change in fair value for the period was recognised as revenue.

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.

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

US$'000 As at December 31, 2013	Level 1	Level 2	Level 3
Liabilities			
Financial liabilities at fair value through profit or loss:			
Derivative liability - Debenture conversion option	-	770	-
	-	770	-

US$'000 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

Notes to the Interim Consolidated Financial Statements (continued)

DECEMBER 31, 2013

7. CONTRIBUTED EQUITY

(a) Share capital	Six Months ended December 31, 2013		Six Months ended December 31, 2012	
	Number of shares	US$'000	Number of shares	US$'000 (Restated)
Ordinary shares fully paid	1,137,870,521	188,104	1,137,870,521	183,609
Total contributed equity	**1,137,870,521**	**188,104**	**1,137,870,521**	**183,609**

(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	-	-	792,075	79
– Issued for cash at C$0.15 per share	-	-	133,333,333	19,932
Less: Transaction costs	-	(24)	-	(1,472)
Exchange differences on restatement to USD presentation currency	-	399	-	3,401
Balance at end of the period	**1,137,870,521**	**188,104**	**1,137,870,521**	**183,609**

8. CONTINGENCIES

The Group has no contingent liabilities (December 31, 2012: Nil) as at the date of these interim consolidated financial statements.

9. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On January 15, 2014 the Group announced it has completed the issuance of $27,509,621 principal amount of convertible unsecured debentures to its major shareholder, Sentient Executive GP IV, Limited for the General Partner of Sentient Global Resources Fund IV, L.P. (collectively, "Sentient") pursuant to a loan conversion and debenture exchange agreement dated November 29, 2013.

Pursuant to the terms of the Agreement, Sentient has: (i) converted the unsecured interest-bearing debt facility in the aggregate principal amount $10,000,000, dated February 6, 2013, as amended, due on January 15, 2014, along with interest of $387,766 thereon, into new Debentures of the Company; (ii) exchanged its aggregate principal amount of $16,300,000 outstanding debentures (the "Sentient Outstanding Debentures") issued pursuant to the debenture purchase agreement, dated as of May 27, 2013, along with interest of $821,855 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 the signing of the Company's consolidated financial statements and entity accounts for the period ending December 31, 2013.

Each $1,000 face value Debenture is convertible, at the option of Sentient, into common shares or Chess Depositary Interests ("CDIs") of the Company at a conversion price of C$0.02 per common share or CDI. The conversion price of the Debentures will be adjusted in the event there is a reorganisation of capital or an issue of new shares at below the conversion price. The Debentures will mature on June 30, 2016 and bear interest at a rate of 9% per annum, which interest shall be satisfied through the issuance of additional Debentures.

Sentient and its related entities currently hold 21.97% of the common shares of the Company and would hold approximately 69.94% of the then issued and outstanding common shares of the Company, assuming the conversion of all the Debentures issued in connection with the transaction (including the Debentures issued to pay interest payments on the Debentures).

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