



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
FOR THE QUARTER ENDED MARCH 31, 2011**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for Marengo Mining Limited ("Marengo" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements of Marengo for the quarter ended March 31, 2011 (the "Interim Financial Statements") and with the June 30, 2010 audited consolidated financial statements (the "Year-End Financial Statements") and related notes thereto (together, the "Financial Statements"). This information is presented as of May 12, 2011. The Financial Statements (and the financial information contained in this MD&A) were prepared in accordance with the Australian equivalents of International Financial Reporting Standards ("IFRS").

All amounts in this discussion are expressed in Australian dollars unless otherwise indicated.

In this MD&A, references to "Company" are references to Marengo Mining Limited and its wholly-owned subsidiaries.

The Financial Statements and other information about the Company and its business activities are available on the (Canadian) SEDAR website.

## **1. Overview**

Marengo is an international mineral exploration and development company listed on the Australian Securities Exchange (the "ASX"), Port Moresby Stock Exchange Limited ("POMSoX") (Code: MGO) and the Toronto Stock Exchange (the "TSX") (Code: MRN).

The Company's principal asset is the Yandera copper-molybdenum-gold project (the "Yandera Project") in Papua New Guinea. The Company is currently focused on advancing the development of the Yandera Project.

The Company also owns a database of exploration and project evaluation activities (including all exploration and drilling data, assay results from 102 diamond holes totalling 33,000 metres, resource estimates and scoping studies) at the Yandera Project between 1970 and 1989.

In September 2006, the Company commissioned a conceptual mining study (the "CMS") for the Yandera Project to include a preliminary mine design and open pit optimization, metallurgical testwork, plant flowsheet design and throughput options and capital and operating cost estimates. In July 2007, the CMS was completed and, based on the positive results thereof, the Company determined to proceed with a definitive feasibility study (the "DFS") on the development of the Yandera Project.

Phase 1 of the DFS was completed in April 2008 and comprised a comparative development options analysis study and delivered a number of positive results. Phase 2 of the DFS commenced in May 2008 and is ongoing. Phase 2 of the DFS involves metallurgical testwork, mine design, process plant design, tailings and concentrate pipeline design, route selection, geotechnical studies, equipment selection and

infrastructure layout. Phase 2 of the DFS also includes identification and consideration of options for project infrastructure, processing facility locations and transportation in order to reduce initial capital costs.

The Company currently has no source of earnings other than interest paid to it on its current cash position. In order to fund its ongoing exploration efforts and operations, Marengo has historically raised funds through the issuance of equity securities.

## **2. Subsequent Events**

No matters or circumstances have arisen since period end which will significantly affect, or may significantly affect, the state of affairs or operations.

## **3. Overall Performance**

The Company began the quarter ended March 31, 2011 with cash reserves of \$70,689,969. During the quarter the Company raised a total of \$42,500, before costs, from the issue of 170,000 ordinary shares upon the exercise of unlisted options. Funds expended were used to actively advance the Company's Yandera Project.

During the quarter ended March 31, 2011 the Company incurred exploration and DFS expenditures of \$5,814,480 (2010: \$3,658,027). In accordance with the Company's accounting policies, all exploration expenditures other than acquisition and feasibility costs, were written off as incurred resulting in a write off of \$844,352 (2010: \$2,628,793) during the quarter. This resulted in an operating loss after income tax for the quarter ended March 31, 2011 of \$341,891 (2010: \$3,533,389).

The Company has a cash balance of \$65,477,232 as at March 31, 2011.

Details of the Company's recent exploration and development activities and overall performance are contained in the March 2011 quarterly report released on April 29, 2011 to the ASX and POMS0X, and concurrently filed under the Company's profile at the (Canadian) SEDAR website.

In October 2010 the Company entered into a non-binding agreement with one of China's leading construction and engineering groups, China Nonferrous Metal Industry's Foreign Engineering and Construction Co. Ltd ("**NFC**").

Under the terms of the Memorandum of Understanding (MoU), Marengo has agreed to work exclusively with NFC to establish the cost and program for delivery of the Yandera Project in parallel with the completion of the current DFS. These discussions will be conducted with a view to entering into:

- a formal construction agreement (Engineering, Procurement and Construction or EPC Contract) under which Marengo will appoint NFC as the principal contractor, under a Lump Sum Turnkey Contract, following a detailed evaluation of the project construction costs, to be undertaken by NFC as part of the final stage of the DFS;
- a formal financing agreement, subject to agreement on the terms of the construction contract, under which NFC will facilitate at least 70% of the necessary financing for the project development costs of the Yandera Project through Chinese banks.

In addition, the MoU contemplates NFC placing a substantial amount of the project copper and molybdenum concentrate off-take with a variety of customers, including NFC itself, and investing in either Marengo or the Yandera Project or both, on terms to be agreed.

Under the proposed construction agreement, NFC will be permitted, to the extent reasonably practicable, to maximise the use and procurement of engineering services, mechanical equipment, fabricated steel and other construction materials, and mining equipment required for the Yandera Project in China.

The MoU includes an indicative timetable which contemplates the commencement of project construction at Yandera by the first half of 2012 following completion of a formal EPC contract and approved financing .

Other highlights of the Company's activities for the quarter ended March 31, 2011 are set out below:

**Resource Upgrade, comprising;**

- Measured Resource of 113Mt @ 0.57% copper equivalent, for 1.0 billion pounds of contained copper and 45 million pounds of contained molybdenum;
- Indicated Resource of 245Mt @ 0.50% copper equivalent, for 1.9 billion pounds of contained copper and 68 million pounds of contained molybdenum; and
- Inferred Resource of 417Mt @ 0.45% copper equivalent, for 3.6 billion pounds of contained copper and 91 million pounds of contained molybdenum.
- Inferred Resource of 776Mt of by-product metals (gold, silver and rhenium) for 2.2Moz of gold, 42Moz of silver and 1.5 Moz of rhenium.

**Resource Drilling Results**

- Diamond drilling results from Gremi Zone intersected:
  - 279 metres @ 0.59% CuEq
  - 375 metres @ 0.44% CuEq
  - 140 metres @ 0.0% CuEq
- Diamond drilling at Imbruminda intersects 240 metres @ 0.51% CuEq
- Diamond drilling results at Dimbi intersects 54 metres @ 0.59% Cu Eq

**Corporate**

- Standard Bank appointed as financial advisor for the Yandera project development,
- Restructure of PNG subsidiaries to form a dedicated operating company for the Yandera Mine.
- In November 2008 the Company expanded the scope of the DFS and extended its anticipated completion date from mid-2009 to December 31, 2010 to consider new options for project infrastructure, processing facility locations and transportation. With entering into the MoU with NFC various other aspects of the project development, including the provision by NFC of a fixed price EPC contract, will be considered and incorporated into the final DFS. The timing of this activity will be dependent on receipt of this information.

To the end of the quarter, good progress was achieved with many of the DFS field activities, including the completion of the revised resource estimates and geotechnical drilling, as well as the hydroelectric power study.

The updated resource estimate was prepared in accordance with the JORC Code and National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”) by international mining consultancy group, Golder Associates Pty Ltd (“**Golder**”), which also prepared Marengo’s October 2008 resource update. The updated resource estimate corresponds with Canadian Institute of Mining, Metallurgy and Petroleum classifications. This resource estimate incorporates assay results from 345 diamond drill holes totalling 113,716 metres, which were drilled up until the end of 2010. **Additionally, Marengo reported an Inferred Resource estimate of 776 million tonnes containing by-product metals, comprising gold (Au), silver (Ag) and rhenium (Re), for 2.2 million ounces of gold, 42 million ounces of silver and 1.5 million ounces of rhenium.**

**These by-product metals have not been included in the copper equivalent values stated above, and are expected to make a significant positive contribution to the overall Project economics.**

Importantly, the updated resource **does not contain any resource estimate for the mineralised zones identified from the deeper diamond drill holes** completed during the latter part of 2010 and being continued this year.

This drilling identified mineralisation to a depth of 981 metres at the Imbruminda zone, some 400 metres below the base of the current resource estimate, and down to a depth of 660 metres at the Gremi zone, some 200 metres below the base of the current resource estimate at the Imbruminda zone.

The updated resource estimate has confirmed the Company’s belief that the Yandera Project will continue to grow in scale and has justified the continued focus on drilling at the Yandera Central Porphyry deposit. With the contained copper inventory increasing by some 32% the Yandera Project has the potential to achieve the Company’s goal of developing a project with a minimum operating life of at least 20 years.

## YANDERA PROJECT

**Table 1 Copper-Molybdenum**

Cut-off	Tonnes	CuEq*	Cu	Mo
(% CuEq)*	(million)	(%)	(ppm)	(ppm)
<b>MEASURED RESOURCE</b>				
<b>0.30</b>	<b>113</b>	<b>0.57</b>	<b>3,980</b>	<b>181</b>
0.25	124	0.55	3,826	173
0.20	132	0.53	3,700	167
<b>INDICATED RESOURCE</b>				
<b>0.30</b>	<b>245</b>	<b>0.46</b>	<b>3,468</b>	<b>124</b>
0.25	349	0.40	3,126	106
0.20	490	0.35	2,772	89
<b>INFERRED RESOURCE</b>				
<b>0.30</b>	<b>417</b>	<b>0.45</b>	<b>3,838</b>	<b>96</b>
0.25	647	0.39	3,327	81
0.20	1,017	0.33	2,840	68

\*CuEq. Calculated as [Cu + (10 x Mo)]: Refer Notes.

**Table 2 By-Products\***

The Copper-Molybdenum resource includes the following by-product metals:

Cut-off (% CuEq)*	Tonnes (million)	Au (g/t)	Ag (g/t)	Re (ppm)
<b>INFERRED RESOURCE</b>				
<b>0.30</b>	<b>776</b>	<b>0.09</b>	<b>1.68</b>	<b>0.06</b>
0.25	1,119	0.08	1.58	0.05
0.20	1,639	0.07	1.50	0.05
*Not included in CuEq.				

Note: The by-product resource is contained within Inferred resource in Table 2. Au and Ag grades have been estimated from a smaller set of data than the Cu and Mo grades. Re has been calculated by regression against Mo based on a limited amount of sampling. Uncertainty is in the characterisation of the Au, Ag and Re metal content of the resource has resulted in no part of the by product resource being classified as Indicated.

A NI 43-101 compliant technical report in connection with the updated resource was subsequently filed on the Company's website and on the (Canadian) SEDAR website at [www.sedar.com](http://www.sedar.com).

Marengo and NFC continue to cooperate on various matters associated with the completion of the DFS, particularly in the areas of review of the existing flow sheet and design criteria, as any further improvements in this area can have a significant impact in the outcomes of the DFS. Although the timing of this work may impact on the timeline for completion of the DFS this should not impact on the overall timeline for development of the project.

During the quarter, preparatory arrangements were completed for the shipping of bulk sample material to NFC's facilities in China, for laboratory test work programs for the mineral processing studies.

### **Yandera Project – Financial Advisor**

During the quarter Standard Bank has been mandated to act as financial advisor for the development of the Yandera Project.

Standard Bank's mandate is to advise Marengo on a comprehensive funding solution for the development of the Yandera Project through to completion of construction. This includes working closely with Marengo and NFC.

As set out in the MoU, NFC will facilitate at least 70% of the necessary financing for the project development costs of the Yandera Project, through Chinese banks.

Standard Bank was selected based on its significant experience in financing mining projects globally, as well as its specific expertise raising finance from Chinese sources. Standard Bank will utilise its teams in London and Beijing to undertake this work.

### **PNG Corporate Structure**

During the quarter, and as part of the planning for the development of the Yandera Project, Marengo continued to restructure its subsidiary structure, principally by the formation of a dedicated operating company for the Yandera mine, Yandera Mining Company Limited ("YMCL"). It is envisaged that YMCL will operate the Yandera Project and hold all of the assets of the mine, including the mine lease, plant and infrastructure licences.

Marengo will continue to hold and operate the current and future PNG exploration assets through Marengo Mining (PNG) Limited.

Marengo will require further capital from external sources to develop any newly discovered mineral deposits and/or, if the DFS is positive, to develop the Yandera Project. Marengo intends to raise any such funds through debt and/or equity financing. There can be no assurance that additional financing will be available at all or on terms acceptable to the Company to develop any newly discovered mineral deposits and to finance the development of the Yandera Project.

In particular, commodity price fluctuations may significantly affect the ability of the Company to fund the development of the Yandera Project and the Company's forecasts and expectations regarding the economic viability of developing its mineral deposit. Fluctuations in commodity prices may also impact the results of operations once mining commences. The monitoring of price movements and trends for the Company's target mineral is essential to understand and monitor the viability of the Company's assets.

Copper prices have historically fluctuated significantly. The closing price of copper as at May 10, 2011 was approximately US\$4.0531/lb Cu.

Molybdenum prices have also historically fluctuated significantly. The closing price of molybdenum as at May 10, 2011 was approximately US\$16.65/lb molybdenum oxide. Molybdenum prices were especially volatile during calendar 2005 and 2006 fluctuating between a high of US\$40.00/lb and a low of US\$22.00/lb molybdenum oxide.

In addition, most of the costs incurred by the Company are denominated in Australian dollars, Canadian dollars and Papua New Guinea kina. Revenue from product sales is expected to be quoted and earned in US dollars. The relative exchange rates of these currencies therefore affect the results of the operations of the Company.

#### **4. Results of Operations**

##### *Quarter Ended March 31, 2011 Compared to Quarter Ended March 31, 2010*

Revenue from continuing operations for the quarter ended March 31, 2011 was \$764,375 (2010: \$21,938) and is comprised primarily of interest revenue. The increase was due to a higher amount of interest income resulting from the increased level of cash deposits as compared to the quarter ended March 31, 2010 following the recent capital raisings.

Other income for the quarter ended March 31, 2011 was \$1,147,059 (2010: \$11,894) and is comprised of foreign currency gains. The increase is due to favourable exchange rate movements during the quarter.

Exploration expenditure of \$844,352 (2010: \$2,628,793) has decreased primarily due to the focus being on DFS activity for the Yandera Project.

Expenditure on the DFS in the quarter ended March 31, 2011 was \$3,425,424 (2010: \$1,029,234). This increase is due to the more advanced stage of completion of the DFS on the Yandera Project and expenditure being capitalised compared with the March 2010 quarter.

Salaries and employee benefits expense \$350,949 (2010: \$348,112) has increase primarily due to less costs being capitalised as part of the DFS expenditure.

Share based payments expense for the quarter ended March 31, 2011 of \$111,597 (2010: \$53,783) resulted from that portion of the value of options issued to Directors and employees that were vesting during the financial year.

Administration, corporate and other expenditure totalled \$946,427 for the quarter ended March 31, 2011 (2010: \$536,533) and has increased due to the increased activity of Marengo.

Marengo undertakes certain transactions denominated in foreign currencies and, as a result, is subject to volatility in exchange rates.

Inflation and price changes have not had a material impact on Marengo's revenues and net income or loss.

## 5. Summary of Quarterly/Half-Yearly Results

The following table sets out the financial results for the Company's most recently completed eight quarters. The financial data is derived from the Financial Statements.

### Summary of Quarterly Results

	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
	31 March 2011	31 December 2010	30 September 2010	30 June 2010	31 March 2010	31 December 2009	30 September 2009	30 June 2009
	(A\$)							
Total revenue.....	764,375	153,705	115,941	59,498	21,938	42,429	36,907	51,540
Net loss .....	(341,891)	(3,458,354)	(1,757,893)	(4,284,746)	(3,533,389)	(4,147,598)	(3,863,360)	(2,357,280)
Basic loss per share (cents) .....	(0.0)	(0.4)	(0.3)	(0.9)	(0.7)	(0.8)	(1.1)	(0.9)
Diluted loss per share (cents) ...	(0.0)	(0.4)	(0.3)	(0.9)	(0.7)	(0.8)	(1.1)	(0.9)
Cash and cash equivalents.....	65,477,232	70,689,969	20,198,921	6,660,704	12,150,800	16,698,257	21,174,297	4,988,081
Total assets .....	99,009,509	98,995,649	43,332,758	25,769,730	28,279,381	32,863,993	37,458,419	22,326,229
Total long-term financial liabilities.....	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Cash dividends declared per share.....	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Marengo primarily incurs costs in Australian dollars (AUD), Canadian dollars (CAD) and Papua New Guinea kina (PGK) and as such is subject to exchange rate risk. Over the last three months, movements in exchange rates were as follows:

	31 December 2010	31 March 2011	High – 1 January 2011 to 31 March 2011	Low – 1 January 2011 to 31 March 2011
<b>AUD / CAD</b>	1.0165	1.0027	1.0218	0.9715
<b>AUD / PGK</b>	2.6110	2.6895	2.7238	2.5340
<b>AUD / USD</b>	1.0163	1.0311	1.0337	0.9701

## 6. Discussion of Cash Flows

	<b>Three Month Period Ended</b>	
	<b>31 March 2011</b>	<b>31 March 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from:</b>		
<b>Operating activities</b>	<b>(1,395,738)</b>	<b>(3,191,713)</b>
<b>Investing activities</b>	<b>(3,612,476)</b>	<b>(1,175,815)</b>
<b>Financing activities</b>	<b>(186,102)</b>	<b>(131,641)</b>

Cash outflow from operating activities was \$1,395,738 (2010: 3,191,713) for the quarter ended March 31, 2011 with the majority of expenditure for the current period being administration, and for the prior period being related to activity on mining tenements. The decrease in expenditure for the quarter ended March 31, 2011 is due to most exploration expenditure being associated with the DFS which is classified as cashflow from an investing activity.

Cash outflow from investing activities was \$3,612,476 (2010: \$1,175,815) for the quarter ended March 31, 2011. The majority of this expenditure related to the DFS.

Cash outflow from financing activities was \$186,102 (2010: \$131,641 outflow) being the net proceeds from share issues during the quarter.

## 7. Discussion of Financial Position

	31 March 2011	30 June 2010
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	65,477,232	6,660,704
Trade and other receivables	1,338,462	702,068
<b>TOTAL CURRENT ASSETS</b>	<b>66,815,694</b>	<b>7,362,772</b>
<b>NON CURRENT ASSETS</b>		
Trade and other receivables	309,156	323,878
Other financial assets	503,202	468,028
Plant and equipment	820,460	760,945
Mining properties	30,560,997	16,854,107
<b>TOTAL NON CURRENT ASSETS</b>	<b>32,193,815</b>	<b>18,406,958</b>
<b>TOTAL ASSETS</b>	<b>99,009,509</b>	<b>25,769,730</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,489,413	2,801,963
Provisions	815,464	524,249
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,304,877</b>	<b>3,326,212</b>
<b>TOTAL LIABILITIES</b>	<b>4,304,877</b>	<b>3,326,212</b>
<b>EQUITY</b>	<b>94,704,632</b>	<b>22,443,518</b>

### Cash and Cash Equivalents

Cash and cash equivalents increased to \$65,477,232 at March 31, 2011 from \$6,660,704 at June 30, 2010 primarily due to the funds raised from the issue of ordinary shares during the September and December 2010 quarters, and funds being expended in a manner consistent with the Company's business objectives.

### Trade and Other Receivables (Current)

Trade and other receivables increased to \$1,338,462 as at March 31, 2011 as compared to \$702,068 as at June 30, 2010 primarily due to an increase in sundry receivables and prepayments.



### Trade and Other Receivables (Non-Current)

Trade and other receivables decreased to \$309,156 as at March 31, 2010 as compared to \$323,878 as at June 30, 2010 primarily due to fluctuations in foreign exchange rate movements.

### Other Financial Assets (refer Section 11 – Transactions with Related Parties)

Other financial assets increased to \$503,202 as at March 31, 2011 as compared to \$468,028 as at June 30, 2010 due to the recognition of the fair value of the loan to Mr Les Emery.

### Plant and Equipment

Plant and equipment increased to \$820,460 as at March 31, 2011 as compared to \$760,945 as at June 30, 2010 primarily due to the purchase and depreciation of fixed assets in the normal course of business.

### Mining Properties

Mining properties increased to \$30,560,997 as at March 31, 2011 as compared to \$16,854,107 as at June 30, 2010 primarily due to expenditure being capitalised in relation to the DFS.

### Trade and Other Payables

Trade and other payables increased to \$3,489,413 as at March 31, 2011 as compared to \$2,801,963 as at June 30, 2010 primarily due to the timing of payments in respect of the Yandera Project.

### Provisions

Provisions increased to \$815,464 as at March 31, 2011 as compared to \$524,249 as at June 30, 2010 primarily due to an increase in staff leave entitlements during the quarter.

### Equity

Equity increased to \$94,704,632 as at March 31, 2011 as compared to \$22,443,518 as at June 30, 2010 due to the net capital raising of \$80,328,137 partially offset by a loss of \$5,558,138 for the 9 months, and a decrease in reserves of \$2,508,885 primarily due to unfavourable foreign exchange rate movements.

## 8. Liquidity and Capital Resources

The Company's principal requirements for cash over the next twelve months will be for the development of the Yandera Project, namely completion of the DFS.

The Company had a cash balance of \$65,477,232 at March 31, 2011.

The Company's contractual obligations are set out below:

Contractual Obligations – A\$	Payments due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term Debt	-	-	-	-	-
Operating Leases	\$1,081,129	\$1,078,750	\$2,379	-	-
Capital Lease Obligations	-	-	-	-	-
Purchase Obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$1,081,129</b>	<b>\$1,078,750</b>	<b>\$2,379</b>	-	-

The Company has implemented a rigorous planning and budgeting process to help determine the funding requirements to support the Company's current operations and expansion and development plans. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short term requirements.

As of the date of this MD&A the Company has cash and cash equivalents to assist financing its district exploration program and completion of the DFS on the Yandera Project and its general administrative expenses for the ensuing twelve month period. During this period the Company will monitor and adjust funding requirements should the need arise.

The Company's ability to continue its operations in the normal course of business after the ensuing twelve months is dependent upon its ability to raise additional debt and/or equity.

In addition, if the DFS is positive, additional funding through a combination of equity and/or debt will be required to finance the development of the project, including construction of plant and other infrastructure, minimum pre-strip and working capital.

The success and pricing of any such capital raising and/or debt financing will be dependent upon the prevailing market conditions at the time, the outcome of the DFS or any other relevant feasibility studies and exploration programs. Although the Company has been successful in raising additional funds in the past, there is no assurance that it will be able to do so in the future.

## **9. Financial Instruments and Other Instruments**

The Company is exposed to commodity price risk and foreign exchange risk in the normal course of its business operations.

The Company has not entered into any forward sales or hedging agreements for copper or molybdenum or any other metals.

Currency hedges involve risks such as default by the other party, illiquidity and the extent to which the Company's assessment of certain market movements is incorrect and the risk that the use of hedges could result in losses greater than if hedging had not been used. The Company currently has no currency hedges in place.

The risks associated with fluctuations in the price of metals and foreign exchange rates are managed by the Company's management, as determined from time to time, using detailed budgets, forecasts and mine plans, but the Company cannot guarantee the effectiveness of its present or future hedging practices.

## **10. Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements as at March 31, 2011.

## **11. Transactions with Related Parties**

On 11 June 2008, the Company entered into a loan agreement with the Managing Director, Les Emery, to lend \$1,000,000 interest free for a 10 year loan term. The purpose of the loan was for Mr Emery to exercise 4,000,000 unlisted options expiring 30 November 2008. This agreement was approved by shareholders at the Company's general meeting on 28 November 2007.

The principal terms of the loan provide as follows:

- If Mr Emery's employment ceases for any reason other than death, permanent disability or removal from office, the loan becomes payable within one month of such cessation. If Mr Emery's employment ceases because of death, permanent disability or removal from office, the loan becomes payable within 6 months of such cessation. The Board retains discretion to extend these time periods;
- Any dividends must be applied to reduce the outstanding loan; and
- The loan is limited recourse. That is, in the event the shares obtained under the loan are sold for an amount less than the amount of the loan, the maximum amount Mr Emery will be required to repay is the amount of the sale proceeds. In this way, Mr Emery is protected against a decline in the Company's share price.

As at March 31, 2011 the loan to Mr Emery is still outstanding.

## **12. Critical Accounting Estimates**

The accounting policies that involve significant management judgement and estimates are discussed in this section. For a complete list of the significant accounting policies, reference should be made to note 1(u) of the Year-End Financial Statements.

### *Share based payment transactions*

The Company 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.

### *Exploration and evaluation costs*

Exploration and evaluation costs are written off in the year they are incurred except for acquisition costs which are carried forward where right of tenure of the area of interest is current and in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, an assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available.

## **13. Changes in Accounting Policies including Initial Adoption**

Recently issued accounting pronouncements and their impact on the Company's accounting policies are disclosed in Note 1 to the Interim Financial Report for the three and nine month periods ended March 31, 2011.

## **14. Risk Factors**

The Company's risk factors are discussed in detail in the Company's AIF dated September 28, 2010 which is available on the (Canadian) SEDAR website at [www.sedar.com](http://www.sedar.com) and should be reviewed in conjunction with this document.

## **15. Outstanding Share Data**

As at May 12, 2011, the only class of shares of the Company outstanding is ordinary shares. As at May 12, 2011, the Company had 995,068,613 ordinary shares outstanding and 82,268,300 options to acquire ordinary shares at various exercise prices.

## **16. Corporate Responsibility for Financial Reports**

The Company's Managing Director ("MD") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting. Access to material information with respect to the Company is facilitated by the small size of the Company's senior management team. The MD and CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures as of March 31, 2011, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that (i) material information relating to the Company is made known to them by others particularly during the period covered by this MD&A; (ii) the information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported, within the time periods specified in securities legislation, and (iii) provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There were no changes in our internal control over financial reporting for the three months ended March 31, 2011, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **17. Cautionary Note Regarding Forward-Looking Information**

Certain information in this MD&A, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information includes, but is not limited to, information which reflect management's expectations regarding Marengo's future growth, results of operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities. Often, this information includes words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

In making and providing the forward-looking information included in this MD&A, the Company has made numerous assumptions. The assumptions include, among other things, assumptions regarding: (i) the accuracy of exploration results received to date; (ii) anticipated costs and expenses; (iii) the accuracy of the Company's mineral resource estimate; (iv) the future price of copper and molybdenum; and (v) that the supply and demand for copper, molybdenum, and other metals develop as expected. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, among other things, the following: (i) need for additional financing to develop the Yandera Project; (ii) decreases in the price of copper and molybdenum; (iii) exploration risk; (iv) the risk that the Company will not obtain a renewal of exploration licence 1335; (v) dependence on the Yandera Project; and (vi) state equity interest.

This MD&A and the Company's AIF dated September 28, 2010 contain additional information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be as anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward-looking information as a result of new information or events after the date of, this MD&A except as may be required by law. All forward-looking information disclosed in this MD&A is qualified by this cautionary statement.

Additional information about the Company and its business activities is available under the Company's profile on the (Canadian) SEDAR website.

### **18. Scientific and Technical Information**

The scientific and technical information contained in this MD&A was prepared by or under the supervision of Peter Dendle. Mr Dendle is a member of the Australasian Institute of Mining and Metallurgy and a full-time employee of Marengo. Mr Dendle is a "Qualified Person" as defined by NI 43-101. Mr Dendle verified the data underlying the information in this MD&A prepared by him.

For a description of: (i) the quality assurance program and quality control measures applied during Marengo's work programs; (ii) a summary description of the geology, mineral occurrences and nature of mineralization found; (iii) a summary description of rock types, geological controls and dimensions of mineralized zones at the Yandera Project; and (iv) a summary description of the type of analytical or testing procedures utilized, sample size and the name and location of each analytical or testing laboratory used please refer to the revised and restated technical report on the Yandera Project originally dated December 2008 and revised and restated, January 2009 and April 2011, prepared by Stephen Godfrey, Associate and Principal Resource Geologist of Golder Associates Pty Ltd (Australia).