



ABN 57 099 496 474

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
FOR THE QUARTER ENDED MARCH 31, 2012  
AND FOR THE NINE MONTHS ENDED MARCH 31, 2012**

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 nine months ended March 31, 2012 (the "Interim Financial Statements") and with the June 30, 2011 audited consolidated financial statements (the "Year-End Financial Statements") and related notes thereto (together, the "Financial Statements"). This information is presented as of May 14, 2012. The Financial Statements (and the financial information contained in this MD&A) were prepared in accordance with the Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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") (Code: MGO), 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 December 2006, the Company commissioned a conceptual mining study (the "CMS") for the Yandera Project to include a preliminary mine design and open pit optimisation, 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 Feasibility Study (the "FS") on the development of the Yandera Project.

Phase 1 of the FS was completed in April 2008 and comprised a comparative development options analysis study and delivered a number of positive results. Phase 2 of the FS commenced in May 2008 and is ongoing. Phase 2 of the FS 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 FS 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, 2012, with cash reserves of \$32,574,521.

During the quarter, the Company incurred exploration and FS expenditure of \$6,059,778 (2011: \$8,114,635). In accordance with the Company's accounting policies, all exploration and feasibility costs have been capitalised to the extent that right of tenure of the area of interest is current and either the costs are expected to be recouped through sale or successful development and exploitation of the area of interest or, where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. Expenditure written off during the quarter amounted to \$886. The company made an operating loss after income tax for the quarter ended March 31, 2012 of \$1,038,145 (2011: profit \$981,866).

The Company raised \$20,000 during the quarter through the exercising of warrants (unlisted options) issuing 160,000 ordinary shares. Funds raised have been used as general working capital in relation to the Company's Yandera Project.

The Company had a cash balance of \$22,227,894 as at March 31, 2012.

Details of the Company's recent exploration and development activities and overall performance are contained in the March 2012 quarterly report released on April 30, 2012 to the ASX and POMS0X, and concurrently filed under the Company's profile at the (Canadian) SEDAR website.

Other highlights of the Company's activities for the quarter ended March 31, 2012 are set out below:

### Drilling

The 2012 field season commenced with four drill rigs in operation, however the focus has initially been on the early completion of geotechnical drill holes, within and around the proposed plant and infrastructure sites, as part of the Yandera Feasibility Study. The information from this drilling will, in part, provide ground stability measurements.

Assays for three of the Omora holes drilled during the latter part of last year were received during the quarter, of which the most significant results are set out below:

In hole YD 423 the most significant intercept was 195 metres @ 0.31% Cu (including 27 metres @ 0.51% Cu).

An elevated gold assay of 0.60 g/t Au, over a 9 metres intersection is also of note.

#### YD423 (Omora)

Collar 293307E 9364371N Azimuth (AMG) 215. @ -50. (EOH @ 452.9m)

From (m)	To (m)	Width (m)	Cu (%)	Mo (ppm)	Au (g/t)	Ag (g/t)
84	279	<b>195</b>	<b>0.31</b>	47	0.06	2.18
Within this broad intersection the following occur:						
111	138	27	0.51	99	0.03	3.14
192	219	27	0.37	48	0.05	1.94
228	237	9	0.38	4	<b>0.60</b>	2.03
255	279	24	0.49	18	0.02	4.22

During the current quarter drilling will continue to focus on infill of the central resource zones, following completion of the final geotechnical holes. The drill program covering the Dirigi Prospect will also continue during the current quarter.

### Regional Exploration

As the first quarter of any year generally coincides with the "wet" season in Papua New Guinea, the time was utilised in analysing the results from 2011 and putting plans in place for the 2012 field season.

The field work program for the rest of the year will see the completion of the stream sediment sampling campaign over Exploration Licence 1670 (Togoban), in-fill stream sediment sampling around identified anomalous gold areas in Exploration Licence 1633 (Yomi) in parallel with a ridge and spur soil sampling program.

A detailed airborne geophysical survey (magnetics and radiometrics) is currently underway, covering principally Exploration Licences 1633 and 1670. This new data is expected to be available during the current quarter. In addition, geological mapping and stream sediment sampling in recently granted Exploration Licence 1851 (Yakumbu) will be planned.

## **Yandera Project Development**

In October 2010, the Company signed a Memorandum of Understanding (“MoU”) with China Nonferrous Metal Industry’s Foreign Engineering and Construction Co Ltd (“NFC”), for the financing, construction and development of the Yandera Project.

As part of its MoU with NFC and Arcon (WA) Pty Ltd (“Arcon”), its Australian engineering partner, these parties have agreed with Marengo to undertake the next key phase of process plant design work, which forms a key component of the Feasibility Study (“FS”). This work will be undertaken at one of NFC’s Design Institutes in China, which employ some 2,500 engineers, who are focused on the many offshore engineering and construction projects being undertaken by NFC at any one time. Arcon will provide supporting engineering services to NFC.

On September 19 2011, the Company entered into the Yandera Project Investment and Co-operation Agreement (“the Agreement”) with Petromin PNG Holdings Limited. Petromin is a resource and investment company established by the PNG Government to hold the Government’s interest in, and invest in the development of mining, oil and gas projects in PNG.

The Agreement establishes the process by which a Mining Equity Agreement (“MEA”) will be developed by the parties under which Petromin may acquire a 30% contributing interest in the Yandera Project, once the Feasibility Study has been completed, the Mining Development Contract is entered into and a Financial Investment Decision is made. At the time of entering into the MEA, Petromin will be required to reimburse Marengo a proportionate sum of Marengo's costs on the Yandera Project.

## **Feasibility Study**

The Feasibility Study is continuing in parallel with the production of information required for the various mining and environmental permits. On March 8, 2012, the Environmental Inception Report (EIR), which is the precursor to the Environmental Impact Statement (EIS), was filed with the PNG Department of Environment and Conservation.

Further review of various development options continue with a number of decisions being made as to the preferred development philosophy. Further details of these will be released once the relevant stakeholders have been briefed.

The completion of the revised mineral resource estimate is nearing completion with release expected shortly. Close cooperation continues between Marengo, NFC and Arcon, with regard to various aspects of the study. A substantial team of consultants continue to focus on a number of the areas yet to be completed for the study.

### **EPC Contract**

NFC has committed to provide a fixed-price Engineering Procurement and Construction (“EPC”) contract and will develop their proposal during 2012, with support from Arcon, following completion of the Feasibility Study. At this stage, it is anticipated that this contract will be entered into during Q4 – 2012, following receipt of the EPC pricing from NFC.

Under this arrangement, Marengo will appoint NFC as the principal contractor, under a turnkey, lump sum contract and also enter into a formal financing agreement under which NFC will facilitate financing for the Yandera Project, for at least 70% of the project development costs, through its nominated Chinese financial institution. Marengo has engaged Standard Bank to advise in this process.

### **Community Matters**

Marengo is committed to working with the community in all aspects of the developments associated with the Yandera Project and maintains an effective and dedicated team to manage its community affairs programs.

Community road shows were held in early to mid March 2012 and have identified positive attitudes towards the project from the various stakeholders in attendance. It has long been recognised by these stakeholders that the development of the Yandera Project will provide many benefits to local and regional communities.

The third community newsletter is currently being completed for release during the current quarter.

### **Safety, Health and Environment**

Safety of the workforce continues to take priority in our operations.

The Yandera Camp clinic continued to treat Marengo employees and villagers, with a number of more serious medical cases being evacuated by helicopter to Government medical facilities.

The Company’s Environment Department continues to be fully engaged in the day to day monitoring of site activities and at the same time, engage with the various consultant groups in the preparation of the Feasibility Study.

### **Other**

On March 20, 2012, the Company announced the terms of the best efforts offering (the "**Offering**") previously announced on March 13, 2012. The Offering is being led by Paradigm Capital Inc. and includes Casimir Capital Ltd.

The Company expects to raise gross proceeds of up to C\$30,000,000 from the Offering.

The Offering will be by way of the issuance of Ordinary Shares but, may, in certain circumstances be by way of Units where each Unit will consist of one ordinary share (an "**Ordinary Share**") of the Company and one subscription receipt. Each Subscription Receipt will be automatically converted into one ordinary share of the Company upon receipt of shareholder approval required pursuant to the listing rules of the Australian Securities Exchange (the "**Release Condition**") at a shareholder meeting held no later than 35 days following receipt for the final prospectus.

The effective price per Ordinary Share under the Offering is C\$0.25.

Marengo will require further capital from external sources to develop any newly discovered mineral deposits and/or, if the FS 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 11, 2012 was approximately US\$3.68/lb Cu.

Molybdenum prices have also historically fluctuated significantly. The closing price of molybdenum as at May 10, 2012 was approximately US\$14.06/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, 2012 compared to quarter ended March 31, 2011*

Revenue from operations for the quarter ended March 31, 2012 was \$351,568 (2011: \$1,911,434) and is comprised primarily of interest revenue and foreign currency gains. The decrease was primarily due to a decrease in the balance of cash deposits earning interest as compared to the previous corresponding quarter and a favourable exchange rate on the Canadian to Australian dollars.

Salaries and employee benefits expense for the quarter ended March 31, 2012 was \$590,510 (2011: \$95,588). The increase for the quarter is primarily due to the provision for a new leave entitlements policy for Papua New Guinean staff and increased staff involved with finalising the FS.

Share based payments expense for the quarter ended March 31, 2012 of \$63,399 (2011:\$111,597) was from the amortisation of the value of options issued to Directors, suppliers and employees over their vesting period.

Administration, corporate and other expenditure totalled \$735,804 for the quarter (2011:\$722,382). The increase in expenditure was primarily due to the previous corresponding quarter including a large realised gain on foreign currency transfers mostly of Canadian dollars into Australian dollars and a gain in the corresponding 2011 quarter.

##### *Nine months ended March 31, 2012 compared to nine months ended March 31, 2011*

Revenue from operations for the nine months ended March 31, 2012 was \$2,074,046 (2011: \$1,034,021) and is comprised primarily of interest revenue. The increase was primarily due to an increase in the balance of cash deposits earning interest as compared to the previous corresponding period.

Other income for the nine months ended March 31, 2012 was \$485,207 (2011:Nil). This was due to the reclassification of a loan receivable from an asset to an option. Refer Section 7 – Other Financial Assets.

Salaries and employee benefits expense for the nine months ended March 31, 2012 was \$1,311,013 (2011:\$701,608). The increase for the quarter is primarily due to the provision for a new leave entitlements policy for Papua New Guinean staff and increased staff involved with finalising the FS study.

Share based payments expense for the nine months ended March 31, 2012 of \$111,828 (2011: \$ 264,225) resulted from the amortisation of the value of options issued to Directors, suppliers and employees over their vesting period.

Administration, corporate and other expenditure totalled \$2,856,088 for the nine months (2011: \$3,539,658). The decrease was primarily due to the previous corresponding quarter including a large realised loss on foreign currency transfers mostly of Canadian dollars into Australian dollars.

Inflation and price changes have not had a material impact on Marengo's revenues and net income or loss during either the three or nine month periods.

## 5. Summary of Quarterly Results

The following table sets out key financial results for the Company's most recently completed eight quarters. The financial data is derived from the Financial Statements. The numbers in the table below prior to 31 March 2011 have not been adjusted for the change in accounting policy.

### Summary of Quarterly Results (AUD)

	Quarter ended 31-Mar-12	Quarter ended 31-Dec-11	Quarter ended 30-Sep-11	Quarter ended 30-Jun-11	Quarter ended 31-Mar-11	Quarter ended 31-Dec-10	Quarter ended 30-Sep-10	Quarter ended 30-Jun-10
Total revenue	351,568	534,673	704,689	807,215	764,375	153,705	115,941	59,498
Net profit (loss)	(1,038,145)	(169,462)	(997,275)	4,706,039	981,866	(3,458,354)	(1,277,903)	7,825,837
Basic profit (loss) per share (cents)	(0.10)	(0.12)	(0.22)	0.59	0.51	(0.40)	(0.20)	1.79
Diluted profit (loss) per share (cents)	(0.10)	(0.12)	(0.21)	0.59	0.51	(0.40)	(0.20)	1.82
Cash and cash equivalents	22,227,894	32,574,521	47,837,572	57,323,915	65,477,232	70,689,969	20,198,921	6,984,582
Total assets	159,391,100	157,222,877	158,443,046	147,238,818	142,977,117	142,872,977	84,411,757	69,647,058
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 Mar. 2012	31 Dec. 2011	High 1 Jan. 2012 to 31 Mar. 2012	Low 1 Jan. 2012 to 31 Mar. 2012
<b>AUD / CAD</b>	1.0357	1.0377	1.0757	1.0349
<b>AUD / PGK</b>	2.1255	2.1365	2.2463	2.1147
<b>AUD / USD</b>	1.0386	1.0175	1.0808	1.0202

Over the last nine months, movements in exchange rates were as follows:

	31 Mar. 2012	30 Jun. 2011	High 1 Jul. 2011 to 31 Mar. 2012	Low 1 Jul. 2011 to 31 Mar. 2012
<b>AUD / CAD</b>	1.0357	1.0349	1.0615	1.0012
<b>AUD / PGK</b>	2.1255	2.3973	2.4644	2.0737
<b>AUD / USD</b>	1.0386	1.0479	1.1029	0.9479



## 6. Discussion of Cash Flows

	3 Months to 31 March 2012 \$	3 Months to 31 March 2011 \$	9 Months to 31 March 2012 \$	9 Months to 31 March 2011 \$
<b>Cash inflows (outflows) from:</b>				
<b>Operating activities</b>	(298,141)	(817,547)	(1,780,417)	(1,864,450)
<b>Investing activities</b>	(10,087,574)	(4,382,547)	(34,080,721)	(20,036,309)
<b>Financing activities</b>	(2,574)	(186,102)	602,124	80,596,537

### *Quarter ended March 31, 2012 compared to quarter ended March 31, 2011*

Cash outflows from operating activities for the three months to March 31, 2012 were \$ 298,141 (2011: 817,547) with the majority of expenditure being for administration. The decrease is due to timing and includes large payments for legal fees and consultants' fees in the March 2011 quarter.

Cash outflows from investing activities was \$10,087,574 (2011: \$4,382,547) for the period. The majority of this expenditure related to the FS and exploration activities.

Cash outflows from financing activities was \$2,574 (2011: \$186,102) with the previous corresponding period's figures being timing of costs associated with large capital raisings (issue of shares and warrants) around that time.

### *Nine months ended March 31, 2012 compared to nine months ended March 31, 2011*

Cash outflows from operating activities for the nine months to March 31, 2012 were \$1,780,417 (2011: \$1,864,450) with the majority of expenditure being for administration. The decrease is due to timing and includes large payments for legal fees and consultants' fees associated with the appointment of standard bank and corporate restructure in 2011.

Cash outflows from investing activities was \$34,080,721 (2011: \$20,036,309) for the period. The majority of this expenditure related to the FS and exploration activities. The increase is due to timing and acceleration in the amount of FS activity in the current period.

Cash inflows from financing activities was \$602,124 (2011: \$80,596,537) with the previous corresponding period's figures being net proceeds from large capital raisings (issue of shares and warrants) during that nine months.

## 7. Discussion of Financial Position

	31 March 2012 \$	30 June 2011 \$
<b>Current Assets</b>		
Cash and cash equivalents	22,227,894	57,323,915
Trade and other receivables	754,949	1,687,846
<b>Total Current Assets</b>	<b>22,982,843</b>	59,011,761
<b>Non Current Assets</b>		
Other financial assets	-	514,793
Plant and equipment	1,234,601	970,631
Exploration and development costs	135,173,656	86,741,633
<b>Total Non Current Assets</b>	<b>136,408,257</b>	88,227,057
<b>Total Assets</b>	<b>159,391,100</b>	147,238,818
<b>Current Liabilities</b>		
Trade and other payables	2,855,605	3,892,348
Provisions	1,076,038	978,830
<b>Total Current Liabilities</b>	<b>3,931,643</b>	4,871,178
<b>Total Liabilities</b>	<b>3,931,643</b>	4,871,178
<b>Equity</b>	<b>155,459,457</b>	142,367,640

### Cash and Cash Equivalents

Cash and cash equivalents decreased to \$22,227,894 at March 31, 2012 from \$57,323,915 at June 30, 2011 primarily due to the expenditure on the FS and exploration activities.

### Trade and Other Receivables (Current)

Trade and other receivables decreased to \$ 754,949 as at March 31, 2012 as compared to \$ 1,687,846 as at June 30, 2011 primarily due to a decrease in sundry receivables and prepayments.

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

Other financial assets decreased to Nil as at March 31, 2012 as compared to \$ 514,793 as at June 30, 2011 due to reclassification of the loan to Mr Les Emery from an asset to an option. The terms of this limited recourse loan are such that it is required to be accounted for as an option under the requirements of Accounting Standard AASB 2 Share-based Payments, through share reserve accounts, rather than as an asset (loan receivable) on the balance sheet. Refer to Note 6 in the Interim Financial Report for more information.

### Plant and Equipment

Plant and equipment increased to \$ 1,234,601 as at March 31, 2012 as compared to \$ 970,631 as at June 30, 2011 primarily due to purchases and depreciation of fixed assets in the normal course of business.

### Exploration and Development

Exploration and development costs increased to \$ 135,173,656 as at March 31, 2012 as compared to \$86,741,633 as at June 30, 2011 due to expenditure being capitalised in relation to the FS and positive movement in foreign exchange rates of \$13,716,672 .

### Trade and Other Payables

Trade and other payables decreased to \$2,855,605 as at March 31, 2012 as compared to \$3,892,348 as at June 30, 2011 primarily due to timing of payments in respect of the Yandera Project.

### Provisions

Provisions increased to \$1,076,038 as at March 31, 2012 as compared to \$978,830 as at June 30, 2011 primarily due to some increased staff leave entitlements being provided for during the current period.

### Equity

Equity increased to \$155,459,457 as at March 31, 2012 as compared to \$ 142,367,640 as at June 30, 2011 due to the net share issue proceeds of \$602,124 offset by a loss of \$ 2,204,884 for the nine months, and an increase in reserves of \$14,694,577 primarily due to 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 FS and transition to the construction stage of the project.

The Company had a cash balance of \$22,227,894, at March 31, 2012.

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	\$2,169,725	\$1,577,114	\$592,610	-	-
Capital Lease Obligations	-	-	-	-	-
Purchase Obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$2,169,725</b>	<b>\$1,577,114</b>	<b>\$592,610</b>	-	-

The Company has implemented a rigorous planning and budgeting process to help determine the funding requirements to support its current feasibility and exploration 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 substantially finance its on-going regional exploration program and completion of the FS on the Yandera Project and its general administrative expenses.

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

In addition, if the FS 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, pre-strip and working capital.

The success and pricing of capital raising(s) and/or debt financing will be dependent upon the prevailing market conditions at the time, the outcome of the FS 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 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, molybdenum or gold 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 foreign exchange rates are managed by the Company's management, as determined from time to time, using detailed budgets and forecasts, 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, 2012.

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

On 11 June 2008, the Company entered into a loan agreement with the Managing Director, Mr 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 nine 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, 2012, the loan to Mr Emery is still outstanding. For accounting purposes, this loan has been treated as an option. Refer Note 6 of the Interim Financial Statements.

## **12. Risk Factors**

The Company's risk factors are discussed in detail in the Company's AIF dated September 28, 2011 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.

## **13. Outstanding Share Data**

As at March 31, 2012, the only class of shares of the Company outstanding is ordinary shares. As at March 31, 2012, the Company had 1,002,559,863 ordinary shares outstanding and 74,117,050 options (including Canadian warrants) to acquire ordinary shares at various exercise prices.

## **14. 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(v) of the 30 June 2011 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 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.

## **15. 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, 2012, 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, summarised 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 nine months ended March 31, 2012, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **16. 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, molybdenum and gold; and (v) that the supply and demand for copper, gold, 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) PNG State equity interest.

This MD&A and the Company's AIF dated September 28, 2011 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.

## **17. 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

mineralisation found; (iii) a summary description of rock types, geological controls and dimensions of mineralised zones at the Yandera Project; and (iv) a summary description of the type of analytical or testing procedures utilised, 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).

It should be noted that the MOU between Marengo and NFC, referred to in this report, is non-binding and that no party is under any obligation to proceed. Accordingly, there is no certainty that a transaction will proceed.

It should also be noted that the Investment and Co-operation Agreement between Marengo and Petromin, referred to this report, is non-binding on Petromin and that Petromin is not under any obligation to proceed. Accordingly, there is no certainty that a transaction will proceed.