ABN 57 099 496 474

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 31, 2011 AND FOR THE HALF YEAR ENDED DECEMBER 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 half-year ended December 31, 2011 (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 February 13, 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**"), 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 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 December 31, 2011, with cash reserves of $47,837,572.

During the quarter, the Company incurred exploration and DFS expenditure of $11,945,220 (2010: $6,019,319). 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 $68,890. The company made an operating loss after income tax for the quarter ended December 31, 2011 of $169,463 (2010: loss of $3,234,212).

The Company raised $696,468 during the quarter through the exercising of warrants (unlisted options) issuing 7,331,250 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 $32,574,521 as at December 31, 2011.

Details of the Company's recent exploration and development activities and overall performance are contained in the December 2011 quarterly report released on January 30, 2012 to the ASX and POMSoX, and concurrently filed under the Company's profile at the (Canadian) SEDAR website.

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

### Resource Drilling Results

Six rigs continued drilling through to early December prior to the Christmas shut down. Further in-fill holes were drilled at Imbruminda and Omora, continuing the strategy of elevating as much resource from inferred to the indicated/measured category, ahead of the resource estimate scheduled for the first quarter of 2012. Key results from the drilling programme are presented below:

- Infill drilling at Gremi intersects:
    - 732m @ 0.53% CuEq

- Infill drilling at Imbruminda Intersects:
    - 161m @ 0.88% CuEq

  - 81m @ 1.22% CuEq
  - 228m @ 0.62% CuEq

- Infill drilling at Dimbi intersects:
  - 318m @ 0.54% CuEq
  - 93m @ 0.73% CuEq

- Infill drilling at Omora intersects
  - 146m @ 0.48% CuEq

**Adit Bravo**

Following completion of the Adit Bravo (Gremi) sampling program, for the recovery of a bulk metallurgical sample, a comprehensive suite of channel chip samples were taken along the north east and south west walls of the adit. These samples were sent for assay and the results are tabulated below. The data from each side of the adit compare well:

**Adit Bravo North East (Gremi)**

*Portal 293272E 9364888N Azimuth (AMG) 273@ +1; length 70.1 m)*

| From (m) | To (m) | Width (m) | Cu (%) | Mo (ppm) | Au (g/t) | Ag (g/t) | CuEq (%) |
|---|---|---|---|---|---|---|---|
| **0.5** | **70.1** | **69.6** | **0.32** | **180** | **0.09** | **1.56** | **0.50** |

CuEq% = Cu% + (10×Mo%) Au not included

**Adit Bravo South West (Gremi)**

*Portal 293272E 9364888N Azimuth (AMG) 273@ +1; length 70.1 m)*

| From (m) | To (m) | Width (m) | Cu (%) | Mo (ppm) | Au (g/t) | Ag (g/t) | CuEq (%) |
|---|---|---|---|---|---|---|---|
| **0.5** | **70.1** | **69.6** | **0.30** | **188** | **0.10** | **1.81** | **0.49** |

CuEq% = Cu% + (10×Mo%) Au not included

**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 Arccon (WA) Pty Ltd (“Arccon”), 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 Definitive Feasibility Study (“DFS”). 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. Arccon will provide supporting engineering services to NFC.

**Definitive Feasibility Study (DFS)**

The DFS is continuing, with completion due by mid 2012. In parallel with this the information required for the various mining and environmental permits continues to be assembled, in order for these applications to be formally submitted at the appropriate time.

Close cooperation continues between Marengo, NFC and its Australian partner, Arccon, with various aspects of the study tasks. In addition, a substantial team of consultants continues to focus on a number of the areas yet to be completed for the DFS.

Metallurgical testwork continues to take place, both in China (under the supervision of NFC) and in Australia. Whilst this work has not yet been completed, the results to date continue to give Marengo encouragement that the results will be in line with previous testwork.

From the drill core samples previously shipped to China a total of fourteen bulk samples were compiled for flotation testwork. These samples range between 0.45 and 1.67 tonnes and the following table sets out the respective head grades of the samples to be processed:

**Net Weight and Assay Results of Metallurgical Drill Core Samples**

| **Sample No.** | **Net Weight (kg)** | **Cu (%)** | **Mo (ppm)** | **Au (g/t)** | **Zone** |
|---|---|---|---|---|---|
| 1 | 454 | 0.71 | 160 | 0.09 | **Comp Oxide** |
| 2 | 1,046 | 0.40 | 900 | 0.21 | **Comp Mixed** |
| 3 | 1,566 | 0.76 | 310 | 0.14 | **Gremi** |
| 4 | 1,671 | 0.66 | 270 | 0.14 | |
| 5 | 1,648 | 0.49 | 170 | 0.09 | |
| 6 | 1,451 | 0.63 | 190 | 0.22 | **Imbruminda** |
| 7 | 1,438 | 0.51 | 150 | 0.26 | |
| 8 | 1,455 | 0.45 | 240 | 0.21 | |
| 9 | 1,322 | 0.65 | 270 | 0.42 | |
| 10 | 1,274 | 0.65 | 360 | 0.59 | |
| 11 | 1,305 | 0.84 | 210 | 0.35 | |
| 12 | 1,137 | 0.45 | 230 | 0.07 | **Omora** |
| 13 | 1,110 | 0.36 | 130 | <0.05 | |
| 14 | 1,234 | 0.45 | 180 | <0.05 | |
| **Total** | 18,115 kg | **Cu (%)** | **Mo (ppm)** | **Au (g/t)** | |
| **Weighted Average: All** | 1,294 | 0.57 | 264 | 0.21 | |
| **Weighted Average: Imbruminda** | **1,374** | **0.62** | **234** | **0.33** | |

In addition, a 45 tonne bulk sample, taken from a successful adit development at the Gremi zone (Adit Bravo) is held in Perth, awaiting processing for separation of copper and molybdenum sulphide concentrates (refer also under Resource Drilling Results above).

**EPC Contract**

NFC has confirmed its commitment to a fixed-price Engineering Procurement and Construction (EPC) contract and will develop their proposal in 2012 with support from Arccon, and following completion of the DFS. At this stage, it is anticipated that this contract will be entered into during Q4 – 2012, following receipt of agreeable EPC pricing from NFC.

Under this arrangement, Marengo will appoint NFC as the principal contractor under a turnkey, lump sum contract and also 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 continues to be advised in this process by Standard Bank.

**Other**

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 February 10, 2012 was approximately US$3.85/lb Cu.

Molybdenum prices have also historically fluctuated significantly. The closing price of molybdenum as at February 10, 2012 was approximately US$14.30/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 December 31, 2011 Compared to Quarter Ended December 31, 2010***

Revenue from continuing operations for the quarter ended December 31, 2011 was $534,673 (2010: $153,705) 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 quarter.

Other income for the quarter ended December 31, 2011 was $485,207. 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 $368,310 (2010: $379,449) is in line with the previous corresponding quarter.

Share based payments expense for the quarter ended December 31, 2011 of $32,526 (2010: expense $120,802) 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 $788,507 for the quarter (2010: $2,882,665). 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.

***Six Months Ended December 31, 2011 Compared to Six Months Ended December 31, 2010***

Revenue from continuing operations for the six months ended December 31, 2011 was $1,239,362 (2010: $269,646) 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 half.

Other income for the six months ended December 31, 2011 was $485,207. 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 was $720,503 (2010: $606,021).

Share based payments expense for the six months ended December 31, 2011 of $48,429 (2010: $152,628) 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 $2,122,374 for the six months (2010: $4,023,112). 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 month or six 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.

**Summary of Quarterly Results (AUD)**

| | 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 | Quarter ended 31-Mar-10 |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 534,673 | 704,689 | 807,215 | 764,375 | 153,705 | 115,941 | 59,498 | 21,938 |
| Net profit (loss) | (169,462) | (997,275) | 4,706,039 | (3,800,245) | (3,458,354) | (1,277,903) | 7,825,837 | (3,533,389) |
| Basic profit (loss) per share (cents) | (0.12) | (0.10) | 0.59 | (0.40) | (0.40) | (0.20) | 1.79 | (0.70) |
| Diluted profit (loss) per share (cents) | (0.12) | (0. 10) | 0.59 | (0.40) | (0.40) | (0.20) | 1.82 | (0.70) |
| Cash and cash equivalents | 32,574,521 | 47,837,572 | 57,323,915 | 65,477,232 | 70,689,969 | 20,198,921 | 6,984,582 | 12,150,800 |
| Total assets | 157,222,877 | 158,443,046 | 147,238,818 | 142,886,837 | 142,872,977 | 84,411,757 | 69,647,058 | 28,279,381 |
| 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 Dec. 2011 | 30 Sept. 2011 | High 1 Oct. 2011 to 31 Dec. 2011 | Low 1 Oct. 2011 to 31 Dec. 2011 |
|---|---|---|---|---|
| **AUD / CAD** | 1.0374 | 1.0111 | 1.0590 | 1.0008 |
| **AUD / PGK** | 2.0733 | 2.1085 | 2.3541 | 2.1085 |
| **AUD / USD** | 1.0174 | 0.9791 | 1.0470 | 0.9500 |

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

| | 31 Dec. 2011 | 30 Jun. 2011 | High 1 Jul. 2011 to 31 Dec. 2011 | Low 1 Jul. 2011 to 31 Dec. 2011 |
|---|---|---|---|---|
| **AUD / CAD** | 1.0374 | 1.0346 | 1.0612 | 1.0008 |
| **AUD / PGK** | 2.0733 | 2.3384 | 2.4017 | 2.0152 |
| **AUD / USD** | 1.0174 | 1.0346 | 1.1028 | 0.9478 |

## 6. Discussion of Cash Flows

| | 3 Months to 31 December 2011 $ | 3 Months to 31 December 2010 $ | 6 Months to 31 December 2011 $ | 6 Months to 31 December 2010 $ |
|---|---|---|---|---|
| **Cash inflows (outflows) from:** | | | | |
| **Operating activities** | (1,379,787) | (196,783) | (1,482,269) | (1,046,903) |
| **Investing activities** | (13,895,942) | (9,886,545) | (23,993,148) | (15,653,762) |
| **Financing activities** | - | 60,592,951 | 604,693 | 80,782,639 |

***Quarter Ended December 31, 2011 Compared to Quarter Ended December 31, 2010***

Cash outflows from operating activities for the three months to December 31, 2011 were $1,379,786 (2010: 196,783) with the majority of expenditure being for administration. The increase is due to timing and includes large payments for legal fees and consultants' fees.

Cash outflows from investing activities was $13,895,942 (2010: $9,886,545) for the period. The majority of this expenditure related to the DFS and exploration activities.

Cash inflows from financing activities was $Nil (2010: $60,592,951) with the previous corresponding period's figures being net proceeds from large capital raisings (issue of shares and warrants) during that three months.

***Six Months Ended December 31, 2011 Compared to Six Months Ended December 31, 2010***

Cash outflows from operating activities for the six months to December 31, 2011 were $1,482,269 (2010: 1,046,903) with the majority of expenditure being for administration. The increase is due to timing and includes large payments for legal fees and consultants' fees.

Cash inflows from financing activities was $604,693 (2010: $80,782,639) with the previous corresponding period's figures being net proceeds from large capital raisings (issue of shares and warrants) during that half year.

## 7. Discussion of Financial Position

| | 31 December 2011 $ | 30 June 2011 $ |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | **32,574,521** | 57,323,915 |
| Trade and other receivables | **1,100,549** | 1,687,846 |
| **Total Current Assets** | **33,675,070** | 59,011,761 |
| **Non Current Assets** | | |
| Other financial assets | **-** | 514,793 |
| Plant and equipment | **1,169,419** | 970,631 |
| Exploration and development costs | **122,378,388** | 86,741,633 |
| **Total Non Current Assets** | **123,547,807** | 88,227,057 |
| **Total Assets** | **157,222,877** | 147,238,818 |
| **Current Liabilities** | | |
| Trade and other payables | **4,713,258** | 3,892,348 |
| Provisions | **799,712** | 978,830 |
| **Total Current Liabilities** | **5,512,970** | 4,871,178 |
| **Total Liabilities** | **5,512,970** | 4,871,178 |
| **Equity** | **151,709,907** | 142,367,640 |

### Cash and Cash Equivalents

Cash and cash equivalents decreased to $32,574,521 at December 31, 2011 from $57,323,915 at June 30, 2011 primarily due to the expenditure on DFS and exploration activities.

### Trade and Other Receivables (Current)

Trade and other receivables decreased to $1,100,549 as at December 31, 2011 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 December 31, 2011 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 $1,169,419 as at December 31, 2011 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 $122,378,388 as at December 31, 2011 as compared to $86,741,633 as at June 30, 2011 due to expenditure being capitalised in relation to the DFS and positive movement in foreign exchange rates of $10,292,966.

**Trade and Other Payables**

Trade and other payables increased to $4,713,258 as at December 31, 2011 as compared to $3,892,348 as at June 30, 2011 primarily due to increased expenditures and timing of payments in respect of the Yandera Project.

**Provisions**

Provisions decreased to $799,712 as at December 31, 2011 as compared to $978,830 as at June 30, 2011 primarily due to some accumulated staff leave entitlements being paid out prior to the Christmas holiday period.

**Equity**

Equity increased to $151,709,917 as at December 31, 2011 as compared to $142,367,640 as at June 30, 2011 due to the net share issue proceeds of $604,693, offset by a loss of $1,166,737 for the half year, and an increase in reserves of $9,904,311 primarily due to foreign exchange rate movements of $10,855,883.

## 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 and transition to the construction stage of the project.

The Company had a cash balance of $32,574,521 at December 31, 2011.

The Company's contractual obligations are set out below:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations – A$** | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Long term Debt | - | - | - | - | - |
| Operating Leases | $2,319,800 | $1,554,082 | $765,718 | - | - |
| Capital Lease Obligations | - | - | - | - | - |
| Purchase Obligations | - | - | - | - | - |
| **Total Contractual Obligations** | **$2,319,800** | **$1,554,082** | **$765,718** | **-** | **-** |

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 DFS 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 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, 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 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 December 31, 2011.

## 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 six 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 December 31, 2011, 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 and should be reviewed in conjunction with this document.

## 13. Outstanding Share Data

As at December 31, 2011, the only class of shares of the Company outstanding is ordinary shares. As at December 31, 2011, the Company had 1,002,399,863 ordinary shares outstanding and 74,837,050 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 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 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 December 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, 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 half year ended December 31, 2011, 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.