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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2013**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("**MD&A**") for Marengo Mining Limited ("**Marengo**" or the "**Company**" or the "**Group**") should be read in conjunction with the unaudited interim consolidated financial statements of Marengo for the three and six months ended December 31, 2013 (the "Q2 2014" and "YTD 2014, respectively" ") and with the audited consolidated financial statements for the fiscal year ended June 30, 2013 ("FY 2013 ") and related notes thereto (together, the "**FY 2013 Financials**"). This information is presented as of February 13, 2014. The Financial Statements (and the financial information contained in this MD&A) were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board.

All amounts in this discussion are expressed in United States dollars ("USD") unless otherwise indicated.

In this MD&A, references to "Company" or "Marengo" 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 Toronto Stock Exchange (the "**TSX**") (Code: MRN), Australian Securities Exchange (the "**ASX**") and the Port Moresby Stock Exchange Limited ("**POMSoX**") (Code: MMC).

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) undertaken by other companies 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 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 work to support 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 work to support the preparation of the FS commenced in May 2008 and is ongoing. The Phase 2 FS work involves metallurgical testwork, mine design, process plant design, tailings and concentrate pipeline design, route selection, geotechnical studies, equipment selection and infrastructure layout. The Phase 2 FS work also includes identification and consideration of options for project infrastructure, processing facility locations and transportation in order to reduce initial capital costs.

The Company's Board of Directors announced on May 17, 2013 that additional work is required in a number of specific areas before a final FS could be completed, including: identifying an alternative cost-competitive source of power for the Project after Marengo's preferred third party power provider decided to withdraw from the proposed power supply arrangements.

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 and funding from its' major shareholder.

Between 2006 and 2012 the Company drilled 448 exploration, resource or geotechnical drill-holes and drove two adits (respectively 50m and 71m long) to test various mineralised zones across its flagship Yandera Copper-Molybdenum-Gold Project and to gather geological and geotechnical information.

In September 2013 the Company commenced a planned 10-hole (2000m) diamond drilling campaign at Dimbi Zone targeting the near-surface Dimbi Zone mineralisation within the Yandera Central Porphyry System. The campaign objective was to identify near-surface resources with the potential to delineate a starter pit for a Yandera mining operation**.**

On October 24, 2013 Marengo announced the first results from the Dimbi drilling campaign 2013, with the first diamond drill hole of its 2013 campaign returning highly encouraging results of 129m of 0.53% Cu in YD 551.

The remaining 2013 drill-holes were sited to target projections of interpreted north-east striking mineralised structures in the hanging wall of the Dimbi Fault, the major north-westerly striking structure which dips to the north-east and bounds the Dimbi Zone on the south-west. By campaign's end on December 1, 2013 the Company had completed nine 2013 campaign holes for 1833m.

On December 2, 2013, the Company announced it had agreed to a refinancing transaction with its major shareholder, Sentient Executive GP IV, Limited for the General Partner of Sentient Global Resources Fund IV, L.P. (collectively, "Sentient"). The refinancing ensures, among other things, financial support for the Company's operations through 2014.

Under the terms of the loan conversion and debenture exchange agreement (the "Agreement"), Sentient will: (i) convert the unsecured interest-bearing debt facility in the aggregate principal amount of $10,000,000, dated February 6, 2013, as amended, due on January 14, 2014, along with interest of $323,293 thereon, into new debentures of the Company (the "New Debentures"); (ii) exchange its aggregate principal amount of $17,048,480 debentures (the "Sentient Outstanding Debentures") issued in satisfaction of principal, interest and fees, pursuant to the debenture purchase agreement, dated as of May 27, 2013 for New Debentures; and (iii) provide a letter of support to the Company, confirming, among other things, that Sentient will ensure the Company has sufficient funds to maintain solvency for a period of 12 months from the date of the approval of the Company's consolidated financial statements and entity accounts for the period ending December 31, 2013 (the "Transaction").

## 2. Subsequent Events

No matters or circumstances have arisen since the end of Q2 2014 which will significantly affect, or may significantly affect, the state of affairs or operations other than the following:

On January 15, 2014 Marengo announced that it had received the requisite shareholder and TSX approval of the transaction and completed the previously announced issuance of $27,509,621 principal amount of convertible unsecured debentures (the "Debentures") to its major shareholder, Sentient, pursuant to the Agreement, ad issued support letter.

## 3. Overall Performance

The Company began Q2 2014, with cash reserves including cash and cash equivalents and investments in term deposits of $7,278,000.

The Company incurred exploration and FS expenditures of $2,140,000 for the 3 month period ended December 31, 2013 (for the three month period ended December 31, 2012 (“Q2 2013”): $7,883,000).

The Company made an operating loss after income tax for Q2 2014 of $1,269,000 (Q2 2013: loss of $2,562,000).

The Company had cash reserves including term deposits of $3,944,000 at the end of Q2 2014.

**Other highlights of the Company’s activities for the Q2 2014 are set out below:**

**Feasibility Study**
Following a review of the technical work in support of the Feasibility Study, the Board of Directors decided that additional work is required in a number of specific areas before a FS can be completed, including identifying an alternative cost-competitive source of power for the Project after Marengo’s preferred third party power provider decided to withdraw from the proposed power supply arrangements.

Further opportunities to enhance the Project include:

- A review of processing plant throughput rates;
- Reviewing the option of Deep Sea Tailings Placement (DSTP) versus a land-based Tailings Management Facility (TMF); and
- Further optimisation of the mine plan.

The objective is to help ensure that the Yandera Project is robust at all phases of the commodity price cycle.

The Company remains committed to the future development of the Yandera Project.

**2013 Dimbi Drilling Campaign**
In the nine-hole diamond drilling campaign, which was completed by December 1, 2013, significant copper grades were intersected in seven drill holes; YD 551, YD 552, YD 553, YD 554, YD 556, YD 557 and YD 558. These drill holes were collared on the hanging wall of Dimbi Fault, which dips steeply NE, and strikes NW (see “Drill hole location plan Dimbi drilling 2013”, below).

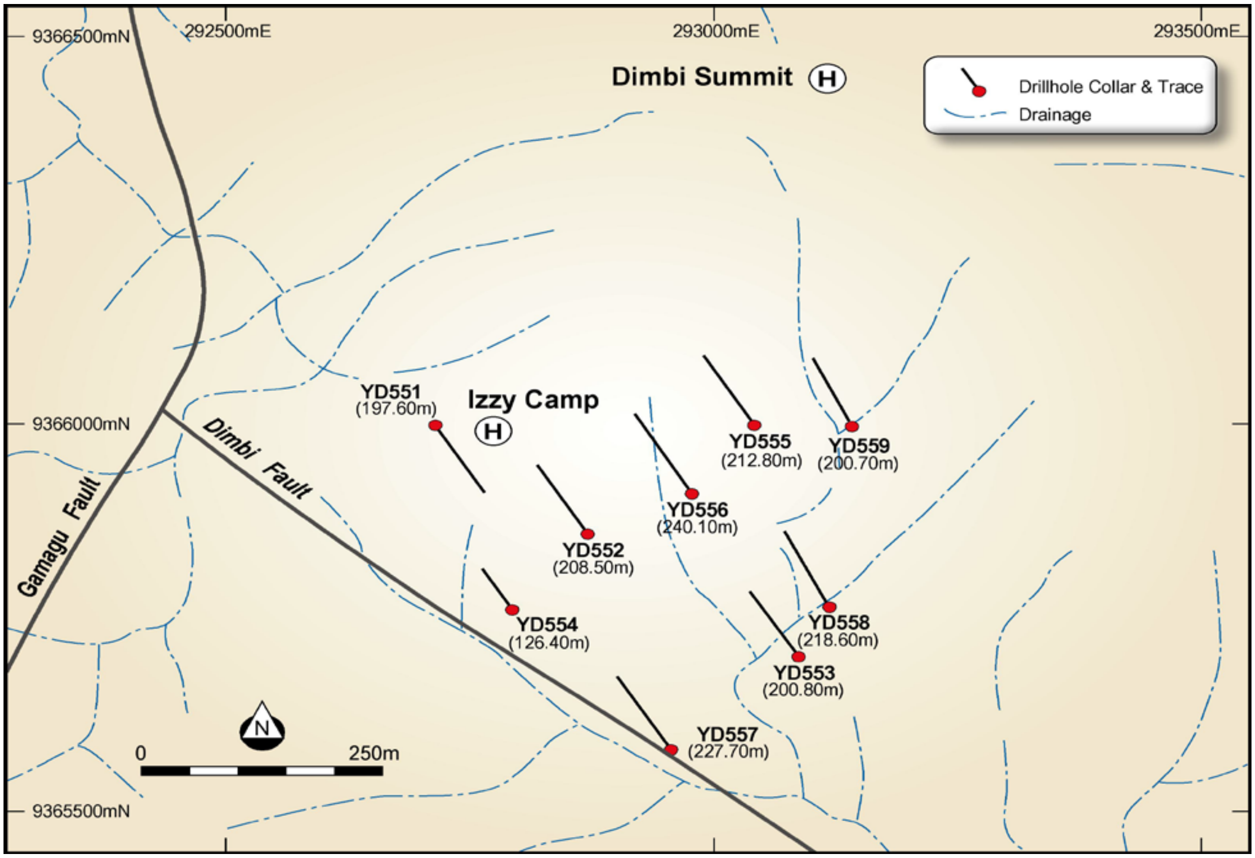
The seven holes drilled at Dimbi in 2013 which intersected elevated copper grades (and also variously the other target metals, Mo, Ag and Au), are contained within a roughly rectangular area 500m x 300m with its long axis parallel to Dimbi Fault and sitting on the hanging wall.

The objective of the 2013 drilling campaign was to characterise indications of near-surface elevated copper grades within the Dimbi Zone that could constitute a starter pit for any Yandera mining operation. Given the impressive strike rate of 7 out of 9 holes delivering elevated grades over significant apparent intervals within 200m of surface, this objective was clearly met, and further drill testing of the open zones adjacent to Dimbi Fault to the north-west and to the south east is in the planning stages, as is infill drilling of the rectangular area bounding the successful 2013 drill holes.

Table 1: Summary of core sample analyses for the 9 hole drilling campaign carried out in 2013

| From (m) | To (m) | Width (m) | Cu % | Mo ppm | Au g/t | Ag g/t | Zn % |
|---|---|---|---|---|---|---|---|
| **YD551** | | | | | | | |
| 69 | 197.6 | 128.6 | 0.53 | 70 | - | 2.45 | - |
| Including | | | | | | | |
| 105 | 132 | 27 | 0.71 | 121 | 0.085 | 3.5 | - |
| **YD552** | | | | | | | |
| 48 | 78 | 30 | 0.42 | - | - | - | - |
| and | | | | | | | |
| 174 | 204 | 30 | 0.56 | - | - | - | - |
| | | | | | | | |
| **YD553** | | | | | | | |
| 153 | 198 | 45 | 0.45 | - | - | - | - |
| | | | | | | | |
| **YD554** | | | | | | | |
| 87 | 99 | 12 | 0.42 | 184 | 0.2 | - | - |
| | | | | | | | |
| **YD555** | | | | | | | |
| 0 | 213 | 213 | - | - | - | - | 0.15 |
| including | | | | | | | |
| 51 | 153 | 102 | - | - | - | - | 0.24 |
| **YD556** | | | | | | | |
| 168 | 240 | 72 | 0.6 | | | | |
| From (m) | To (m) | Width (m) | Cu % | Mo ppm | Au g/t | Ag g/t | Zn % |
| **YD557** | | | | | | | |
| 93 | 135 | 42 | 0.82 | 100 | - | 2.34 | - |
| and | | | | | | | |
| 186 | 198 | 12 | 0.4 | - | - | - | - |
| **YD558** | | | | | | | |
| 42 | 72 | 30 | 0.51 | 224 | - | - | - |
| | | | | | | | |
| **YD559** | | | | | | | |
| 0 | 200.7 | 200.7 | - | - | - | - | 0.21 |

### Drill Hole location plan Dimbi drilling 2013




Collar coordinates were determined by hand-held GPS units and are accurate to within +/- 8m of the true location as established by GPS accuracy checks against known positions. Collars are to be re-surveyed at a later date using high precision GPS survey methods.

**Power Advisory Appointment**

In the September Quarterly Report, the Company commented on the importance of identifying an alternative cost competitive source of power for the Yandera Project. Accordingly, Marengo has appointed Origin Capital Group (Origin) following a comprehensive selection process to undertake an initial phase of work into the optimal power supply for the Project.

Origin is a leading Australian based independent advisory group which has operated in the power sector since inception in 1998, and has undertaken numerous advisory and fundraising assignments in PNG. Origin has undertaken work for the Papua New Guinea Treasury, PNG Ports Corporation, Ramu Agri-Industries, and PNG Sustainable Development, which it advised on the acquisition of power generation, transmission and distribution assets.

Origin has completed a Phase One report on the Yandera power requirements and is currently being reviewed by management, prior to presentation to the Board.

**Termination of Jant Agreement**

Following the ongoing review of the requirements for the Yandera Project development, Marengo has terminated the option to acquire the Madang waterfront land from PNG wood-chip operators Jant Limited.

**Community Matters**

Marengo is committed to working with the community in all aspects of the current activities and future development plans for the Yandera Project. It maintains an effective and dedicated team to manage its community affairs programs.

Regular meetings continue to be held with government departments at both provincial and national level to ensure that these bodies are also made aware, at an early stage, of the development plans for the Yandera Project.

**Safety, Health and Environment**

Marengo places the highest level of importance on safety, health and environment in all areas where it is active.

The Yandera camp clinic continues to be staffed to treat Marengo employees and members of the local villages for their health needs. The more serious medical cases are being evacuated by helicopter to Government medical facilities for further treatment.

Marengo continues to support a pilot sustainable development program, at the Usino area, near Yandera.

**Appointment of Canadian Chief Financial Officer**

During the Quarter, Marengo was pleased to announce the appointment of Mr. Alexander Dann to the role of Chief Financial Officer ("**CFO**") of the Company, based in Toronto, Canada, and effective January 1, 2014.

Mr. Dann is a Chartered Accountant with over 20 years of experience leading financial operations and strategic planning for multi-national companies, primarily in the mining sector. Mr. Dann has held senior roles with Falconbridge Limited, Rio Algom Ltd., and most recently as CFO of Avion Gold Corp., prior to its acquisition by Endeavour Mining Corporation.

**Completion of Financing and Financial Support**

The Company completed, following shareholder approval at the Annual and Special Meeting, held in January 2014, the previously announced loan conversion and debenture exchange agreement with its major shareholder Sentient. As part of the agreement, among other things, Sentient will ensure the Company has sufficient funds to maintain solvency for a period of 12 months from the date of approval of the Company's consolidated financial statements and entity accounts for the period ended December 31, 2013.

## 4. Results of Operations

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

Given the Group's current financial position and the extensive nature of the feasibility study and the additional optimisation opportunities currently being considered, Marengo's major shareholder, Sentient Executive GP IV (Sentient) has agreed to provide financial assistance to the Group. Note 9 of the interim financial statements for the three and six months ended December 31, 2013 sets out the details of the restructure of the Group's financial commitments with Sentient as well as the commitment letter confirming that it will provide financial support to the Group for 12 months from the date of approval of these interim consolidated financial statements.

With this support from Sentient, the Directors are of the opinion that, as at the date of these interim consolidated financial statements, the Group is a going concern and, as a result, the interim financial statements as at, and for the three and six months ended December 31, 2013, does not include any adjustments relating to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

***Three months ended December 31, 2013 ("Q2 2014")***

Revenue from operations for Q2 2014 was $31,000 (Q2 2013: $109,000) and is comprised of interest revenue. The decrease in Q2 2014 was primarily due to a decrease in the balance of cash deposits earning interest as compared to Q2 2013.

Other income for Q2 2014 was $615,000 (Q2 2013: $23,000). $568,000 is due to the movement in fair value of the derivative liability in relation to the conversion option of the Convertible Debentures and $47,000 unrealised foreign exchange gain for the quarter.

Salaries and employee benefits expense for Q2 2014 was $252,000 (Q2 2013: $589,000). The decrease in Q2 2014 is primarily due to reduced number of staff due to the closure of the Perth office.

Interest expense for Q2 2014 of $827,000 was the interest accrued for the quarter on the $10,000,000 loan and $15,000,000 convertible notes provided to the Company by Sentient.

All corporate, depreciation, occupancy, insurance, foreign exchange and administration and other expenditure totalled $697,000 for Q2 2014 (Q2 2013: $1,664,000). The decrease is due to the reduction in overheads due to the closure of the Perth office.

***Six months ended December 31, 2013 ("YTD 2014")***

Revenue from operations for YTD 2014 was $46,000 (YTD 2013: $327,000) and is comprised of interest revenue. The decrease in Q2 2014 was primarily due to a decrease in the balance of cash deposits earning interest as compared to Q2 2013.

Other income for YTD 2014 was $583,000 (YTD 2013: $23,000) and is due to an adjustment of $477,000 made to share based payment expense relating to the performance rights issued on September 6, 2012 and October 12, 2012. The probability that the vesting conditions of these performance rights would be met prior to the expiry date was previously judged to be 100%, however this probability has been reassessed and reduced thus creating a recovery in the current quarter. The remaining $106,000 of other income is due to the movement in fair value of the derivative liability in relation to the conversion option of the Convertible Debentures.

Salaries and employee benefits expense for YTD 2014 was $713,000 (YTD 2013: $1,070,000). The decrease in six months to December 31 is primarily due to reduced number of staff due to the closure of the Perth office.

Interest expense for Q2 2014 of $2,031,000 was the interest accrued for the six months on the $10,000,000 loan and $15,000,000 convertible notes provided to the Company by Sentient.

All corporate, depreciation, occupancy, insurance, foreign exchange and administration and other expenditure totalled $1,348,000 for YTD 2014 (YTD 2013: $2,859,000). The decrease is due to the reduction in overheads due to the closure of the Perth office.

## 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 (US$'000)**

| US$'000 | Quarter Dec 31, 13 | Quarter Sep 30, 13 | Quarter Jun 30, 13 | Quarter Mar 31, 13 | Quarter Dec 31, 12 | Quarter Sep 30, 12 | Quarter Jun 30, 12 | Quarter Mar 31, 12 |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 31 | 15 | (147) | 106 | 109 | 218 | 180 | 368 |
| Net loss | (1,269) | (2,327) | (1,005) | (2,322) | (2,551) | (1,607) | (650) | (1,095) |
| Basic loss per share (cents) | (0.11) | (0.21) | (0.09) | (0.21) | (0.23) | (0.14) | (0.06) | (0.11) |
| Diluted loss per share (cents) | (0.11) | (0.21) | (0.09) | (0.21) | (0.23) | (0.14) | (0.06) | (0.11) |
| Cash reserves | 3,944 | 7,278 | 6,692 | 6,065 | 5,760 | 17,053 | 6,692 | 23,088 |
| Total assets | 164,561 | 161,154 | 182,470 | 184,602 | 180,576 | 183,868 | 182,469 | 165,559 |
| Total long-term financial liabilities | 14,967 | 14,273 | 6,833 | - | - | - | - | - |
| Cash dividends declared per share | - | - | - | - | - | - | - | - |

Marengo primarily incurs costs in Unites States dollars (USD), Australian dollars (AUD), Canadian dollars (CAD) and Papua New Guinea kina (PGK). The accounts are presented in United States dollars (USD) and as such are subject to exchange rate risk where transactions are in a currency other than the functional currency of the company. During Q2 2014, movement in exchange rates were as follows:

| | December 31, 2013 | September 30, 2013 | High September 30 to December 31, 2013 | Low September 30 to December 31, 2013 |
|---|---|---|---|---|
| **USD / CAD** | 1.0697 | 1.0312 | 1.0736 | 1.0270 |
| **USD / PGK** | 2.5720 | 2.6410 | 2.6080 | 2.3447 |
| **AUD / USD** | 0.8874 | 0.9322 | 0.9757 | 0.8819 |

During YTD 2014, movements in exchange rates were as follows:

| | December 31, 2013 | June 30, 2013 | High July 1 2013 to December 31, 2013 | Low July 1, 2013 to December 31, 2013 |
|---|---|---|---|---|
| **USD / CAD** | 1.0697 | 1.0526 | 1.0736 | 1.0181 |
| **USD / PGK** | 2.5720 | 2.2999 | 2.6080 | 2.0619 |
| **AUD / USD** | 0.8874 | 0.9146 | 0.9757 | 0.8819 |

## 6. <u>Discussion of Cash Flows</u>

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **US$'000** | **December 31, 2013** | **December 31, 2012** | **December 31, 2013** | **December 31, 2012** |
| Cash inflows (outflows) from: | | | | |
| Operating activities | (691) | (3,699) | (1,692) | (6,405) |
| Investing activities | 195 | (7,876) | (3,652) | (7,653) |
| Financing activities | (2) | 19 | 5,976 | 18,539 |

***Quarter ended December 31, 2013 compared with quarter ended December 31, 2012***

Cash outflows from operating activities for Q2 2014 were $691,000 (Q2 2013: $3,699,000) with the majority of expenditure being for administration. The decrease is due to the reduction in overheads due to the closure of the Perth office.

Cash inflows from investing activities for Q2 2014 were $195,000 (Q2 2013: outflow of $7,876,000). The majority of this expenditure related to the FS which in Q1 2013 was offset by the funds drawn from long term deposits.

Cash outflows from financing activities in Q2 2014 was $2,000 (Q2 2013: inflows of $19,000) which relates to capital raising costs.

***Six months ended December 31, 2013 compared with six months ended December 31, 2012***

Cash outflows from operating activities for YTD 2014 were $1,692,000 (YTD 2013: $6,405,000) with the majority of expenditure being for administration. The decrease is due to the reduction in overheads due to the closure of the Perth office.

Cash outflows from investing activities for YTD 2014 were $3,652,000 (YTD 2013: $7,653,000). The majority of this expenditure related to the FS partially offset by the drawdown of funds from term deposits.

Cash inflows from financing activities in YTD 2014 was $5,976,000 (YTD 2013: $18,539,000) due to draw down of the final tranche of the Sentient Convertible Debentures.

## 7. Discussion of Financial Position

| US$'000 | December 31, 2013 | June 30, 2013 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 2,248 | 1,667 |
| Restricted Cash | 89 | - |
| Investments – term deposits | 1,696 | 5,025 |
| Trade and other receivables | 717 | 957 |
| **TOTAL CURRENT ASSETS** | **4,750** | **7,649** |
| **NON CURRENT ASSETS** | | |
| Plant and equipment | 878 | 1,154 |
| Exploration and evaluation | 158,933 | 173,667 |
| **TOTAL NON CURRENT ASSETS** | **159,811** | **174,821** |
| **TOTAL ASSETS** | **164,561** | **182,470** |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 1,139 | 3,094 |
| Provisions | 1,160 | 1,040 |
| Loans and borrowings | 10,304 | 10,668 |
| Derivative Liability | 770 | 611 |
| **TOTAL CURRENT LIABILITIES** | **13,373** | **15,413** |
| **NON CURRENT LIABILITIES** | | |
| Loans and borrowings | 14,967 | 6,833 |
| **TOTAL NON CURRENT LIABILITIES** | **14,967** | **6,833** |
| **TOTAL LIABILITIES** | **28,340** | **22,246** |
| **EQUITY** | **136,221** | **160,224** |

**Cash and Cash Equivalents**

Cash and cash equivalents increased to $2,248,000 at the end of Q2 2014 from $1,667,000 at the end of FY 2013 primarily due to the final drawdown under the Sentient Convertible Debentures and to the utilisation of term deposit funds.

**Restricted Cash**

Term Deposits held in relation to the bank guarantees with a third party supplier have been separated from term deposits, the term deposits total A$100,000.

**Investments - Term Deposits**

Cash held in term deposits has decreased to $1,696,000 at the end of Q2 2014 from $5,025,000 at the end of FY 2013 mainly due to the utilisation of funds to further the Company's Yandera FS.

**Trade and Other Receivables**

Trade and other receivables decreased to $717,000 as at the end of Q2 2014 as compared to $957,000 at the end of FY 2013 largely due to a reduction in recoverable GST paid in Australia and reduced prepayments required.

**Plant and Equipment**

Plant and equipment decreased to $878,000 as at the end of Q2 2014 as compared to $1,154,000 as at the end of FY 2013 predominantly due to the sale of plant & equipment relating to the Perth office and depreciation expense for the six months.

**Exploration and Evaluation**

Exploration and evaluation costs decreased to $158,933,000 as at the end of Q2 2014 as compared to $173,667,000 as at the end of FY 2013 primarily due to the fluctuation in the exchange rate of the PGK to USD over the six month period.

**Trade and Other Payables**

Trade and other payables decreased to $1,139,000 as at the end of Q2 2014 as compared to $3,094,000 as at the end of FY 2013 largely due to timing of payments in respect of the Yandera Project and the reduction in overheads due to the closure of the Perth office.

**Provisions**

Provisions increased to $1,160,000 as at the end of Q2 2014 as compared to $1,040,000 as at the end of FY 2013 primarily due to timing of payments in respect of payroll related costs.

**Loans and borrowings**

Loans and borrowings increased to $25,271,000 as at Q2 2014 as compared to $17,501,000 as at the end of FY 2013 due to the drawdown of the final tranche of the convertible notes of $6,000,000 plus interest accrued on the $10,000,000 loan and the $15,000,000 convertible note facility for the six months.

**Derivative Liability**

Derivative Liability increased to $770,000 as at Q2 2014 as compared to $611,000 as at the end of FY 2013 due to the drawdown of the final tranche of the convertible notes and the revaluation to fair value of the derivative liability as at December 31, 2013.

**Equity**

Equity decreased to $136,221,000 as at the end of Q2 2014 as compared to $160,224,000 as at the end of FY 2013 due a loss of $3,596,000 in the six months to Q2 2014, and a decrease in reserves 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.

The Company had cash reserves including term deposits of $3,944,000 at the end of Q2 2014.

The Company's contractual obligations as at the end of Q2 2014 are set out below:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations – US$'000** | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Long term debt | 20,982 | 1,570 | 19,412 | - | - |
| Operating leases | 66 | 66 | - | - | - |
| Capital lease obligations | - | - | - | - | - |
| Purchase obligations | - | - | - | - | - |
| **Total contractual obligations** | **21,048** | **1,636** | **19,412** | **-** | **-** |

## 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 the end of Q2 2014 (end of FY 2013: None).

## 11. Transactions with Related Parties

On June 11, 2008, the Company entered into a loan agreement with the President & Chief Executive Officer, Mr Les Emery, to lend A$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 November 30, 2008. This agreement was approved by shareholders at the Company's general meeting on November 28, 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.

The loan was accounted for as an option in the 2012 fiscal year and as at September 30, 2013, the loan to Mr Emery is still outstanding.

## 12. <u>Changes in Accounting Policies including Initial Adoption</u>

Recently issued accounting pronouncements and their impact on the Company's accounting policies are disclosed in Note 1 to the December 31, 2013 Interim Consolidated Financial Statements dated February 12, 2014 and the Note 1 to the 2013 Consolidated Financial Statements dated September 30, 2013 both of which are available on the Canadian SEDAR website at www.sedar.com and should be reviewed in conjunction with this document.

## 13. <u>Risk Factors</u>

The Company's risk factors are discussed in detail in the Company's AIF dated September 30, 2013 which is available on SEDAR and should be reviewed in conjunction with this document.

## 14. <u>Outstanding Share Data</u>

As at December 31, 2013, the only class of shares of the Company outstanding is common shares. As at December 31, 2013, the Company had 1,137,870,521 common shares outstanding and 48,500,000 options/ performance rights outstanding.

## 13. <u>Critical Accounting Estimates</u>

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 FY 2013 Financial Statements.

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

*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.

*Derivative Financial Instruments*

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

## 14. Corporate Responsibility for Financial Reports

The Company's Chief Executive Officer ("**CEO**") 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 CEO and CFO, after evaluating the effectiveness of the Company's disclosure controls and procedures as of the end of Q2 2014, 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 six months ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 15. 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; (vi) PNG State equity interest; and (vii) the ability of the Company to satisfy its debt obligations.

The Company's AIF dated September 30, 2013 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.

## 16. Scientific and Technical Information

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