



## **Management's Discussion and Analysis**

### **Quarter ended June 30, 2014**

This Management Discussion and Analysis ("MD&A"), dated August 13, 2014, relates to the operating results and financial condition of Morien Resources Corp. ("Morien" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2013, unaudited condensed interim consolidated financial statements for the period ended June 30, 2014 and the notes thereto.

The following discussion and analysis includes consolidated financial information relating to the Corporation's subsidiaries and is presented in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address future production, resource and reserve potential, exploitation activities and events or developments the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, joint venture negotiations, evaluation and development results, continued availability of capital and financing and general economic, market or business conditions.

## **Overview of Business**

Morien is a resource exploration and development corporation focused on the development of the Donkin coal project in Nova Scotia, Canada.

## **Project Summaries**

### **Donkin Coal Project – Nova Scotia, Canada**

Morien has a 25% interest in the Donkin coal project ("Donkin Project") on Cape Breton Island, Nova Scotia, along with joint venture partner Glencore Xstrata ("Glencore") which has a 75% interest in the project.

In June 2011, the Donkin Joint Venture ("DJV") released a National Instrument 43-101 compliant Technical Report for the Donkin coal project prepared by Marston & Marston Inc. of St. Louis, Missouri (the "Report"). The Report presents the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Glencore and the reserves defined by the PFS. The PFS estimated the Donkin mine will produce 2.75 million washed product tonnes of

coal per year and will directly employ about 300 people. The PFS targeted the commencement of coal production in 2014, although the outcome of the Glencore sales process is having an impact on these timelines. The Report supports advancing the project to the next phase. The PFS concluded that Donkin had a \$1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately \$500 million and demonstrates the potential for first quartile operating costs.

On April 26, 2012, it was announced that Glencore was seeking an operating coal company to assume its 75% interest in the Donkin coal project. Glencore cited a change in its business strategy since first acquiring the project, to one which now focuses on larger volume mining complexes, as the reason for the choosing to sell its interest in the project.

On March 19, 2013, Glencore announced that an acceptable buyer had yet to be found and acquisition options would be discussed with Morien. Management has entered into discussions with multiple parties to assess various options to participate in the Glencore sale process including acting on its 60-day right of first refusal.

On July 22, 2013, the Donkin Joint Venture received a positive environmental assessment decision for the Donkin Coal Project ("Project") from Nova Scotia's provincial Minister of Environment. With federal approval announced by the Company on July 17, 2013, the Project now has all of the necessary environmental approvals to advance toward production.

The Corporation has had advanced discussions with prospective operating, marketing, coal purchasing and financing partners. In an effort to reduce maintenance expenditures, in early 2014, Glencore completed the removal of ventilation and dewatering equipment and sealed the tunnels. The tunnels were subsequently reopened to allow prospective buyers the opportunity to inspect the tunnels.

Glencore, under the joint venture agreement, is committed to fund the first \$10 million of Morien's development funding requirement. Glencore brought forward \$1 million of this amount to cover Morien's share of expenditures on the project during the sales process, reducing Glencore's commitment to fund future development costs of the Corporation to \$9 million.

On August 11, 2014, the Corporation announced it received notice from Glencore of the intended sale of Glencore's 75% interest in the Donkin Coal Project to an arm's length third party. Under terms of the Joint Venture Agreement between Glencore and Morien, Glencore has now offered to sell their interest to Morien, at the same price and on the same terms and conditions as agreed with the third party (the "Right of First Refusal", or the "ROFR"). If Morien does not act on the ROFR within a 60 day period, Glencore will be entitled to complete the sale to the third party. Management is now reviewing the terms and will decide in due course whether to exercise the ROFR.

The Corporation spent approximately \$15,000 on Donkin in the six months ended June 30, 2014 (2013 - \$301,000).

### **Black Point Aggregate – Nova Scotia, Canada**

The Black Point ("BP") aggregate project consists of a granite deposit along the southern shore of Chedabucto Bay in Guysborough that has suitable characteristics for the development of a crushed stone export aggregate operation for supplying markets in the United States and

Caribbean region. Since 2007, Morien, and previously Erdene Resource Development Corp., has been working with the Municipality of the District of Guysborough (“MoDG”) to advance the BP project. Morien signed a second amended and restated Option Agreement for the property with MoDG on June 25, 2013 that provided the framework for leasing Municipality-owned lands to develop the project.

On April 14, 2014 Morien entered into agreements (“Agreements”) with Vulcan Materials Company (“Vulcan”) and the MoDG for the development of BP. Under the terms of the Agreements, Vulcan will assume Morien’s interest in Black Point and will become manager and operator of the Project in exchange for milestone payments totaling \$1,800,000, and a royalty stream payable on all material sold from the Project over the life of the mine. The first payment of \$1,000,000 was received on signing, and a second payment of \$800,000 is due upon the approval and receipt of all environmental permitting necessary for the mining and shipping of aggregate from the Project.

The Corporation spent approximately \$49,000 on Black Point in six months ended June 30, 2014 (2013 - \$32,000). \$45,000 of management and technical costs were recovered from Vulcan.

#### **Banks Island Gold Ltd. Royalty – British Columbia, Canada**

The Corporation owns a 1.5% Net Smelter Royalty (“NSR”) over the marketable metal, ores, minerals and concentrates produced and shipped from a 1,987 hectare area within Banks Islands Gold Ltd.’s Yellow Giant Gold property located 105 kilometres south of Prince Rupert, British Columbia. Banks Island has a right to purchase 0.5% of Morien’s 1.5% royalty at any time for a one-time payment of \$300,000.

### **Selected Annual Information**

The following information has been extracted from the Corporation’s audited consolidated financial statements.

*Expressed in thousands of Canadian dollars except per share amounts.*

<b>Fiscal Year Ended December 31</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenues	\$ Nil	\$ Nil	\$ Nil
Loss for the year	\$ 1,227	\$ 1,231	\$ 3,328
Basic and diluted loss per share	\$ 0.03	\$ 0.12	\$ 1.05
Total assets	\$ 19,213	\$ 20,836	\$ 1,843
Total long-term liabilities	\$ 150	\$ 250	\$ 411
Cash dividends declared	Nil	Nil	Nil

*All financial data has been prepared in accordance with IFRS.*

## **Discussion of Operations**

### **Three months ended June 30, 2014 and 2013**

In the second quarter of 2014, the Corporation began to recognize royalty revenue from Banks Island Gold Ltd. (see Project Summaries). Accrued royalties at June 30, 2014 totalled \$79,162 (2013 – nil).

Corporate and administration costs amounted to \$206,645 for the three months ended June 30, 2014 compared to \$301,662 for the same period in 2013, a decrease of \$95,017. Excluding non-cash share based payments of \$30,246 in the prior year, corporate and administrative costs decreased \$64,771 in the quarter ended June 30, 2014, compared to the same quarter in 2013. Management has been systematic in reducing or eliminating overhead costs where possible. Management services paid to Erdene have been reduced in 2014. The remainder of the decrease in corporate and administration is due to lower professional fees, travel, investor relations and office costs.

Exploration costs totaled \$5,809 for the three months ended June 30, 2014 compared to \$41,095 for the same period in 2013. The prior year included legal and land access costs associated with the Black Point project. The Corporation is also recovering some management and technical costs associated with the Black Point project as the Corporation continues to assist Vulcan with the permitting process. The recovery in the second quarter of 2014 was approximately \$20,000.

In the second quarter of 2014, the corporation recognized a net gain of \$674,165 on the sale of the Black Point project to Vulcan (see Project Summaries).

Net income was \$539,898, or \$0.01 per share, in the second quarter of 2014 compared to a net loss of \$341,522, or \$0.01 per share, for the same period in 2013.

### **Six months ended June 30, 2014 and 2013**

The Corporation recognized royalty revenue of \$79,162 for the six months ended June 30, 2014 (2013 – nil).

Corporate and administration costs amounted to \$376,611 for the six months ended June 30, 2014 compared to \$637,454 for the same period in 2013, a decrease of \$260,843. Excluding non-cash share based payments of \$98,301 in the prior year, corporate and administrative costs decreased \$162,542 in the six months ended June 30, 2014, compared to 2013. Management salaries and administrative fees paid to Erdene have been reduced in 2014. The remainder of the decrease in corporate and administration is due to lower professional fees, travel, investor relations and office costs.

Exploration costs totaled \$19,088 for the six months ended June 30, 2014 compared to \$83,155 in 2013, a \$64,067 decrease. The prior year included approximately \$36,000 in assaying costs for a bulk sampling program at the Donkin Project. The Corporation is also recovering some management and technical costs associated with the Black Point project as the Corporation continues to assist Vulcan with the permitting process. The recovery in the six months ended June 30, 2014 was approximately \$45,000.

In the second quarter of 2014, the corporation recognized a net gain of \$674,165 on the sale of the Black Point project to Vulcan (see Project Summaries).

Net income was \$356,243, or \$0.01 per share, in the six months ended June 30, 2014 compared to a net loss of \$718,264, or \$0.01 per share, for the same period in 2013.

## Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2014		Fiscal 2013				Fiscal 2012	
	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep
Revenue	\$ 79	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (Loss)	\$ 540	\$ (184)	\$ (127)	\$ (382)	\$ (341)	\$ (377)	\$ (855)	\$ (96)
Basic and diluted income (loss) per share	\$ 0.01	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Total assets	\$ 19,581	\$ 19,131	\$ 19,213	\$ 19,488	\$ 20,061	\$ 20,413	\$ 20,836	\$ 1,262

All financial data has been prepared in accordance with IFRS.

The Corporation's expenditures vary from quarter to quarter depending on the timing of its exploration and development programs and the size of royalty payments from Banks Island Gold Ltd. Upon successful permitting of the Black Point Project, the Corporation will receive a payment of \$800,000 from Vulcan. As outlined under Project Summaries, the corporation has 60 days to exercise its ROFR on the Donkin Project, which could have a material impact on the Corporation's cash flows. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

## Liquidity and Capital Resources

At June 30, 2014, the Corporation had working capital of \$897,792 compared to \$541,549 at December 31, 2013, an increase of \$356,243.

On April 14, 2014, the Corporation signed an agreement with Vulcan (see Project Summaries) and received a payment of \$1.0 million on closing. As of the date of this MD&A, the Corporation has working capital of approximately \$800,000, which is expected to meet the Corporation's obligations until the second quarter of 2015, depending largely on the outcome on the sale of Glencore's 75% interest in the Donkin Project.

On July 31, 2014, the Corporation began receiving royalty payments from Banks Island Gold Ltd. (see Project Summaries). The size and timing of future royalty payments is uncertain due to the early stage in development of the property.

The ability of the Corporation to raise capital or to advance the Donkin project to development is dependent on Glencore completing its sale process and Morien successfully working with a new partner. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its evaluation and development of the Donkin project is contingent upon obtaining equity financing or securing strategic alliances.

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future.

## **Outlook**

The start of the royalty payments from the Corporation's 1.5% NSR in the Yellow Giant Gold project represents a source of revenue to offset the Corporation's annual administration costs. The size and timing of the payments are dependent on the success of this early stage operation.

As mentioned above, the Corporation received notice from Glencore of the intended sale of Glencore's 75% interest in the Donkin Coal Project to an arm's length third party. Management is now reviewing the terms and will decide in due course whether to exercise the ROFR, but not later than October 10, 2014. The Corporation remains hopeful the successful completion of the intended sale of Glencore's interest will lead to a resumption of the Donkin exploration and evaluation program.

The Corporation has budgeted approximately \$77,000 for internal technical costs associated with the Donkin project in 2014, and has spent \$15,000 to date. The Corporation does not expect to make any further payments to the Donkin JV until the sale of Glencore's 75% interest is complete.

## **Contractual Obligations**

- As partner in the DJV, the Corporation is committed to fund 25% of the exploration and evaluation expenses as well as 25% of the development and operating expenses associated with the project. Glencore is committed to fund the first \$10 million of Morien's development funding requirement. Glencore brought forward \$1 million of this amount to cover Morien's share of expenditures on the project during the sales process reducing Glencore's commitment to fund future development costs of the Corporation to \$9 million.
- The Corporation has signed a management services agreement with Erdene for management personnel, office space and sundry costs. In 2013, the fee amounted to \$501,000 and is expected to be approximately \$450,000 in 2014.

## **Off-Balance Sheet Arrangements**

As at June 30, 2014, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any obligations that trigger financing, liquidity, market or credit risk to the Corporation.

## **Transactions with Related Parties**

On November 20, 2012, the Corporation signed a promissory note in favour of the Corporation's CEO, John P. A. Budreski, for \$250,000 to be repaid at any time but not later than November 20, 2015. The note entitles Mr. Budreski to an interest payment based on Scotiabank's prime lending rate plus 2.0%, accrued monthly and payable annually on the anniversary date.

On September 5, 2013, the Corporation repaid \$100,000 of the loan, plus accrued interest, leaving a balance of \$150,000, plus accrued interest, to the date of this MD&A.

## **Critical Accounting Estimates**

The preparation of the financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions and are continually evaluated. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

### **Estimate of recoverability for non-financial assets**

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Corporation's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for any goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditure. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying

value of the assets may be impaired and the impairment would be charged against the income statement.

### **Share-based payments**

The Corporation issues equity-settled share-based payments to certain employees and third parties outside the Corporation. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and dividend yields based on information available at the time the fair value is measured.

### **Fair value of financial instruments, including embedded derivatives**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **Provisions for site restoration**

The Corporation records provisions which include various estimates, including the Corporation's best estimate of the future costs associated with settlement of the obligation, and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.

### **Taxation**

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and any deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of any deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of any recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.



## **Future Changes in Accounting Policies**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2014. The following new standards, amendments and interpretations have been adopted by the Corporation but have not had a material impact on these condensed interim consolidated financial statements:

- IFRS 9 – Financial Instruments
- Investment Entities - IFRS 10, IFRS 12 and IAS 27
- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
- IFRIC 21, Levies

## **Disclosure Controls and Internal Controls over Financial Reporting**

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining the Corporation’s disclosure controls and internal controls over financial reporting to provide reasonable assurance i) that material information about the Corporation and its subsidiaries would have been made known to them and ii) regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

TSX Venture-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting, as defined in Multinational Instrument MI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

## **Financial Instruments and Other Risks**

The Corporation’s financial instruments consist of cash, trade and other receivables, trade and other payables, amounts due to shareholder, and finance leases. Management does not believe the financial instruments held by the Corporation expose it to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to exploration and evaluation results, coal prices, access to capital and general market conditions. Exploration and development of mining operations involve many risks, many of which are outside the Corporation’s control.

At this stage in the Corporation’s development, it relies primarily on equity financing for its working capital and capital requirements to fund its exploration and development programs.

Future equity financing could be affected by many factors outside the Corporation's control such as market or commodity price changes, changes in the value of the Canadian dollar against the US dollar, general economic conditions, exploration results or political or economic changes in the jurisdictions in which the Corporation operates. The Corporation does not have sufficient funds to put any of its properties into commercial production from its current financial resources. There is no assurance that such financing will be available to the Corporation when required, or that it will be available on acceptable terms.

## **Outstanding Share Data**

### **Share Capital:**

There was no change to the share capital of the Corporation for the period ended June 30, 2014. To the date of this MD&A, the Corporation has 49,256,240 issued and outstanding common shares.

### **Stock Options:**

In the first six months of 2014, 325,000 options with a weighted average exercise price of \$0.37 expired, leaving a balance to the date of this MD&A of 3,630,000, all of which were exercisable.

## **Other Information**

Additional information regarding the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.morienres.com](http://www.morienres.com).