Condensed Interim Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the three months ended March 31, 2019 and 2018

Unaudited condensed interim consolidated financial statements

In accordance with National Instrument 51-102 released by the Canadian Securities administrators, the Company discloses that its auditors have not reviewed these condensed interim consolidated financial statements for the three months ended March 31, 2019 and 2018.

MKANGO RESOURCES LTD
Condensed Interim Consolidated Statements of Financial Position
Reported in US dollars

As at	Notes	March 31, 2019	December 31, 2018
ASSETS			
Current			
Cash		$11,058,598	$2,391,964
Restricted cash		-	8,738
Government remittances receivable		81,594	68,808
Prepaid expenses		46,605	140,692
Total currents assets		11,186,797	2,610,202
Property and equipment	5	69,079	75,359
Total assets		11,255,876	2,685,561
LIABILITIES			
Current			
Accounts payable and accrued liabilities		530,009	353,347
Due to related party	6	225,439	335,804
Warrants - derivative financial instruments	8(b)	478,407	792,121
Grant received in advance	7	63,862	63,862
Total liabilities		1,297,717	1,545,134
SHAREHOLDERS' EQUITY			
Share capital	8(a)	11,080,639	10,641,411
Contributed surplus		3,575,184	3,774,020
Accumulated other comprehensive income		76,876	84,088
Retained earnings (deficit)		5,073,180	(9,461,379)
Total shareholders' equity of parent		19,805,879	5,038,140
Non-controlling interest	9	(9,847,720)	(3,897,713)
Total liabilities and shareholders' equity		$11,255,876	$2,685,561
Going concern	2		
Commitments	11		
Subsequent events	13		

Approved on behalf of the Board:

(signed) "*William Dawes*"

William Dawes, CEO and Director

(signed) "*Shaun Treacy*"

Shaun Treacy, Director

Refer to accompanying notes to the condensed interim consolidated financial statements.

MKANGO RESOURCES LTD
Condensed Interim Consolidated Statements of Comprehensive Loss
Reported in US dollars

	Notes	For the three months ended March 31, 2019	2018
Expenses			
General and administrative		$340,034	$330,892
Mineral exploration expenditures		454,985	352,363
Research and development		3,517	281,372
Depreciation	5	6,280	2,951
Share-based payments	8(c)	29,664	39,723
		834,480	1,007,301
Other items			
Interest income		(85)	(766)
Accretion		4,033	19,363
Listing expenses		24,036	16,972
Unrealized (gain) loss on revaluation of warrants	8(b)	(135,531)	139,255
Realized gain on revaluation of warrants	8(b)	(134,915)	-
Loss on deferral of related party consulting fees		1,675	-
Foreign exchange (gain) loss		103,886	(28,475)
Net loss		$697,579	$1,153,650
Net loss attributable to			
Common shareholders		506,939	897,105
Non-controlling interest	9	190,640	256,545
Attributable net loss		697,579	1,153,650
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		7,212	(1,167)
Total comprehensive loss		$704,791	$1,152,483
Total comprehensive loss attributable to			
Common shareholders		512,386	866,052
Non-controlling interest	9	192,405	286,431
Attributable comprehensive loss		$704,791	$1,152,483
Net loss per share - basic and diluted		$(0.006)	$(0.011)
Weighted average shares outstanding basic and diluted		113,058,077	103,145,847

Refer to accompanying notes to the condensed interim consolidated financial statements.

MKANGO RESOURCES LTD
Condensed Interim Consolidated Statements of Cash Flows
Reported in US dollars

	Notes	For the three months ended March 31, 2019	2018
Cash flow used by operating activities			
Net loss for the period		$(697,579)	$(1,153,650)
Items not affecting cash:			
Unrealized (gain) loss on revaluation of warrants	8(b)	(135,531)	139,255
Realized gain on revaluation of warrants	8(b)	(134,915)	-
Share based payments	8(c)	29,664	39,723
Depreciation	5	6,280	2,951
Accretion	6(e)	4,033	-
Gain on deferral of related party consulting fees	6(e)	1,675	-
Unrealized foreign exchange (gain) loss		91,148	(34,355)
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		81,301	122,787
Current liabilities		66,297	(52,431)
Cash flow used by operating activities		(687,627)	(935,720)
Cash flow provided by financing activities			
Investment by non-controlling investor	9	9,255,853	8,284,027
Stock options exercised	8(a)	75,812	-
Warrants exercised	8(a)	99,267	520,388
Cash flow provided by financing activities		9,430,932	8,804,415
Cash flow used by investing activities			
Addition of assets	5	-	(3,897)
Cash flow used by investing activities		-	(3,897)
Effect of exchange rate changes on cash		(85,409)	-
Change in cash		8,657,896	7,864,798
Cash at the beginning of the period		2,400,702	691,276
Cash at the end of the period		$11,058,598	$8,556,074

Refer to accompanying notes to the condensed interim consolidated financial statements.

MKANGO RESOURCES LTD
Condensed Interim Consolidated Statements of Changes in Equity
Reported in US dollars

	Note	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained earnings (deficit)	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2017		$9,343,659	$3,660,003	$65,437	$(14,322,462)	$ -	$(1,253,363)
Warrants exercised	8(a)	963,045	(10,831)	-	-	-	952,214
Share based payments	8(c)	-	39,723	-	-	-	39,723
Acquisition of shares by NCI	9	-	-	-	-	(2,239,928)	(2,239,928)
Gain on recognition of NCI	9	-	-	-	10,525,122	-	10,525,122
Total comprehensive income		-	-	1,167	(899,439)	(256,545)	(1,154,817)
Balance at March 31, 2018		**$10,306,704**	**$3,688,895**	**$66,604**	**$(4,696,779)**	**$(2,496,473)**	**$6,868,951**
Balance at December 31, 2018		$10,641,411	$3,774,020	$84,088	$(9,461,379)	$(3,897,713)	$1,140,427
Warrants exercised	8(a)	134,915	-	-	-	-	134,915
Stock options exercised	8(a)	304,313	(228,500)	-	-	-	75,813
Share based payments	8(c)	-	29,664	-	-	-	29,664
Acquisition of shares by NCI	9	-	-	-	-	(5,785,647)	(5,785,647)
Foreign exchange change		-	-	-	-	26,280	26,280
Gain on recognition of NCI	9	-	-	-	15,041,498	-	15,041,498
Total comprehensive income		-	-	(7,212)	(506,939)	(190,640)	(704,791)
Balance at March 31, 2019		**$11,080,639**	**$3,575,184**	**$76,876**	**$5,073,180**	**$(9,847,720)**	**$9,958,159**

Refer to accompanying notes to the condensed interim consolidated financial statements.

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd ("Mkango") is rare earth element and associated minerals exploration and development with three properties in the Republic of Malawi, Africa, including the Phalombe exploration license ("Phalombe License"), the Thambani exploration license ("Thambani License") and the Chimimbe exploration license ("Chimimbe License").

Mkango was originally incorporated under the name Alloy Capital Corp. ("Alloy") on November 13, 2007, under the laws of the Province of Alberta, Canada. On December 20, 2010, Alloy was acquired through a "reverse takeover" by Lancaster Exploration ("Lancaster BVI"). The articles of Mkango were amended to change its name from Alloy Capital Corp. to Mkango Resources Ltd. On October 15, 2018, Mkango discontinued its incorporation in Alberta, Canada and became incorporated in the province of British Columbia, Canada. Mkango's head office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

Lancaster BVI was incorporated August 3, 2007, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. Lancaster BVI is 51% owned by Mkango and 49% owned by Talaxis Limited ("Talaxis") (Note 9). Lancaster BVI's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 19, 2011, Lancaster Exploration Limited ("Lancaster Malawi") was incorporated under the laws of Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI and as such, is 49% owned by Talaxis.

On January 3, 2018, Maginito Limited ("Maginito") was incorporated under the laws of the British Virgin Islands ("BVI"). Maginito is 75.5% owned by Mkango and 24.5% owned by Talaxis (Note 9). Maginito's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

MKA Exploration Limited ("MKA Exploration") was incorporated on July 25, 2018, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. MKA Exploration is 100% owned by Mkango. MKA Exploration's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

Mkango and its subsidiaries are collectively referred to as the "Company" in these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 30, 2019.

2. GOING CONCERN

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As of March 31, 2019, the Company had recurring net losses and negative cash flows from operations. In addition, the Company has future spending commitments with the Government of Malawi to keep its exploration licences in good standing. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi (Note 11). As at March 31, 2019, the licences are in good standing with the Government of Malawi. These factors may indicate material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern.

Notwithstanding the above paragraph, the operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million ($16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 9). Talaxis holds an option to fund project development. The Talaxis investments will be used to fund a Bankable Feasibility Study for the Songwe Hill project over the next 12 months. The operations of the Company are also being funded by the proceeds received upon the exercise of warrants and stock options (Notes 8(a)(i)(iii) and Note 13(a)).

These condensed interim consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Basis of presentation and measurement

These condensed interim consolidated financial statements have been prepared using the historical cost convention, except for certain financial instruments and share-based payment transactions measured at fair value.

(c) Functional and presentation currency and principles of consolidation

The condensed interim consolidated financial statements are presented in US dollars, which is the functional currency of Mkango. Below is a listing of ownership percentage and functional currency of Mkango's subsidiaries:

Entity Name	Functional Currency	Ownership Percentage
Lancaster Exploration ("Lancaster BVI")	US Dollar	51%
Maginito Limited ("Maginito")	British Sterling	75.5%
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	51%
MKA Exploration Limited ("MKA Exploration")	US Dollar	100%

The condensed interim consolidated financial statements of the Company include the accounts of the Company and its four subsidiaries listed above. All intercompany balances and transactions are eliminated upon consolidation.

(d) Non-controlling interest

Non-controlling interest represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity (deficiency). Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 51% and 75.5% of the respective common outstanding shares held by its subsidiaries, Lancaster BVI and Maginito. These condensed interim consolidated financial statements include 100% of the assets and liabilities related to Lancaster BVI, Lancaster Malawi and Maginito and include a non-controlling interest representing 49% of Lancaster BVI, 49% of Lancaster Malawi and 24.5% of Maginito's assets and liabilities not owned by the Company.

(e) Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Key areas of judgement made in applying the Company's accounting policies are as follows:

(i) Exploration and evaluation expenditures

Costs incurred in respect of properties that have been determined to have proved reserves and for which an environmental impact study has been completed, are classified as development and production assets. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no established development past or present and no proved reserves assigned are classified as exploration and evaluation expenses and are recognized in the condensed interim consolidated statement of comprehensive loss. The decision to start capitalization of expenditure to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As at the date of this report, management has determined that the Company has not yet reached the development and production stage.

3. BASIS OF PRESENTATION (continued)

(ii) Functional currency

The determination of the functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Therefore, determination of functional currency may involve certain judgments to determine the economic environment, which is the most representative for each subsidiary. The Company reconsiders the functional currency of each subsidiary if there is a significant change in the underlying transactions, events and conditions that were initially considered in determining the functional currency.

Key areas of estimation where management has made difficult, complex or subjective assumptions, often as a result of matters inherently uncertain are as follows:

(i) Measurement of share-based payments and warrant valuation (Note 8(b)(c))

The Company uses the Black-Scholes option-pricing model to determine the fair value of share-based payments and warrants. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

(ii) Determination of fair values (Note 10)

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses a discount rate to determine the fair value of deferred consulting fees on initial recognition. The discount rate is based on an estimated market rate for the Company to obtain similar unsecured financing from a third-party lender.

(iii) Taxes

Provisions for taxes are made using the best estimate of the amounts expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(f) New IFRS pronouncements not yet implemented

Certain new IASB IFRS standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company’s condensed interim consolidated financial statements.

(g) IFRS pronouncements adopted January 1, 2019

As required, the Company adopted IFRS 16 as of January 1, 2019. IFRS 16, “Leases” (“IFRS 16”), replaces existing standards and interpretations on lease recognition. On January 13, 2016, the IASB published a new standard, IFRS 16 which brings most leases for lessees onto the balance sheet under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use (“ROU”) asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

The Company has elected to use the modified retrospective approach in its adoption of IFRS 16. The modified retrospective method does not require restatement of prior period financial information as it may recognize the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s condensed interim consolidated financial statements is not restated.

Impact of the application of IFRS 16

The Company completed an assessment of the impact of IFRS 16. As the Company does not hold any leases, this standard has no impact on the condensed interim consolidated financial statements.

(Reported in US dollars unless indicated otherwise)

4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2018.

5. PROPERTY AND EQUIPMENT

	Office Equipment	Computer Equipment	Vehicles	Total
Cost				
Balance at December 31, 2017	$ 289	$ 44,500	$ -	$ 44,789
Additions	-	3,897	80,011	83,908
Balance at December 31, 2018	$ 289	$ 48,397	$ 80,011	$ 128,697
Additions	-	-	-	-
Balance at March 31, 2019	**$ 289**	**$ 48,397**	**$ 80,011**	**$ 128,697**

	Office Equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation				
Balance at December 31, 2017	$ 202	$ 27,230	$ -	$ 27,432
Depreciation	87	11,612	14,207	25,906
Balance at December 31, 2018	$ 289	$ 38,842	$ 14,207	$ 53,338
Depreciation	-	796	5,484	6,280
Balance at March 31, 2019	**$ 289**	**$ 39,638**	**$ 19,691**	**$ 59,618**

Net Book Value				
December 31, 2018	$ -	$ 9,555	$ 65,804	$ 75,359
March 31, 2019	**$ -**	**$ 8,759**	**$ 60,320**	**$ 69,079**

(Reported in US dollars unless indicated otherwise)

6. RELATED PARTY TRANSACTIONS AND BALANCES

a) Leo Mining Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers who have an ownership in, and exercise significant influence over, both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services, which may be provided, and the costs associated with such services. The Company repays the disbursements made by Leo Mining on its behalf. During the three months ended March 31, 2019, the Company had incurred costs of $13,630 (March 31, 2018 - $31,980) for administrative services. As of March 31, 2019, the Company has an outstanding payable to Leo Mining in the amount of $7,739 (March 31, 2018 – $14,880). The amount is unsecured and due on demand.

b) Talaxis is considered an insider as it holds more than 10% of the shares of the Company. Transactions and balances with Talaxis are disclosed throughout the condensed interim consolidated financial statements.

c) Zenith Advisory Services Pty Ltd. ("Zenith") is considered a related party because a Director of the Company is a principal of Zenith. Transactions and balances with Zenith are disclosed throughout the condensed interim consolidated financial statements.

d) The Company incurred costs of $117,670 (March 31, 2018 – $136,930) for key management fees and director expenses for the three months ended March 31, 2019. The non- executive Directors of the Company are each entitled to a fee of $16,000 per year and the Chairman of the Board is entitled to a fee of $40,000 per year. As of March 31, 2019, the Company has an outstanding payable due to directors and officers of $38,035 (March 31, 2018 - $53,068). The current liabilities due to related parties are unsecured, due on demand and non-interest bearing.

The Company recorded a gain on deferral of related party consulting fees at the time of the initial deferral and upon deferral of each monthly amount. Accretion is recorded at an effective interest rate of 20% of the consulting fees payable. On February 12, 2019 £40,000 ($51,559) was paid to the Executive Directors. The following table provides a reconciliation of amounts reflected in the condensed interim consolidated financial statements for the three months ended March 31, 2019 and 2018:

March 31,		**2019**	2018
Balance, beginning of period		**$ 235,616**	$ 448,380
Consulting fees paid during the period	6 (d)	**(51,559)**	(244,969)
Loss on deferral of consulting fees		**1,675**	-
Accretion		**4,033**	19,363
Foreign exchange (gain) loss		**(10,100)**	12,842
Balance, end of period		**$ 179,665**	$ 235,616
Due to related parties with common directors	6 (a)	**7,739**	14,880
Due to key management and directors	6 (d)	**38,035**	53,068
Total due to related parties		**$ 225,439**	$ 303,564

7. GRANT RECEIVED IN ADVANCE

Grant received in advance is comprised of grant funds, which have been received but not yet spent. The Company, through its wholly owned subsidiary, Lancaster BVI, is the recipient of a grant from the HiTech AlkCarb research program (the "Grant Program") led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation ("EU"). Under the Grant Program, the Company will receive up to €150,000 ($195,330). During 2016, the Company received an initial advance of €42,611 ($47,992). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data ("Qualifying Expenditures") have qualified for use of the grant funding. On February 6, 2018, Lancaster BVI received a further €49,589 ($61,199). For the period ended March 31, 2018, the Company has received confirmation from the EU that the $44,464 of Qualifying Expenditures reported at July 2017 has been approved. The most recent financial report submitted March 31, 2019 is pending approval by the EU. As of March 31, 2019, the grant received in advance is valued at $63,862 (March 31, 2018 – $63,862).

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL

a) Common shares

The Company is authorized to issue an unlimited number of common and preferred shares without nominal or par value. The Company has not issued any preferred shares to date. The holders of common shares are entitled to one vote for each share on all matters submitted to a shareholder vote and are entitled to share in all dividends that the Company's board of directors, at its discretion, declares from available funds.

	Ref	Number	Amount
Closing balance December 31, 2017		102,879,224	$9,343,659
Warrants exercised	(i)	8,419,964	1,297,752
Closing balance December 31, 2018		111,299,188	$10,641,411
Warrants exercised	(ii)	1,136,363	134,915
Stock options exercised	(iii)	1,620,000	304,313
Closing balance March 31, 2019		114,055,551	$11,080,639

(i) A total of 8,419,964 warrants were exercised during the year ended December 31, 2018 for a total increase of $1,297,752 in common share value of which $759,475 was cash consideration. Total cash consideration of $753,334 was received during the year ended December 31, 2018 and $6,141 was received during the year ended December 31, 2017.

- On January 12, 2018, a total of 150,000 advisory warrants were exercised at a price of 3.5 UK pence per common share for total cash consideration of £5,246 ($6,141) in relation to the December 30, 2016 warrants issuance. Cash consideration was received in December 2017.
- On January 12, 2018, a total of 2,006,060 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £132,400 ($179,998) in relation to the June 15, 2016 warrants issuance.
- On January 25, 2018, a total of 1,566,650 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £103,453 ($139,798) in relation to the June 15, 2016 warrants issuance.
- On January 25, 2018, a total of 150,000 warrants were exercised at a price of C$0.15 per common share for total cash consideration of C$22,500 ($17,192) in relation to the July 31, 2015 warrants issuance.
- On January 26, 2018, a total of 1,546,212 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £102,050 ($144,793) in relation to the June 15, 2016 warrants issuance.
- On March 1, 2018, a total of 351,909 warrants were exercised at a price of C$0.15 per common share for total cash consideration of C$52,748 ($41,182) in relation to the July 31, 2015 warrants issuance.
- On September 6, 2018, a total of 504,545 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £33,300 ($42,756) in relation to the June 15, 2016 warrants issuance.
- On September 17, 2018, a total of 50,000 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £3,300 ($4,316) in relation to the June 15, 2016 warrants issuance.
- On September 27, 2018, a total of 714,285 advisory warrants were exercised at a price of 3.5 UK pence per common share for total cash consideration of £25,000 ($32,740) in relation to the October 26, 2017 warrants issuance.
- On October 19, 2018, a total of 1,133,333 warrants were exercised at a price of C$0.15 per common share for total cash consideration of C$170,000 ($129,727) in relation to the October 19, 2015 warrants issuance.
- On November 16, 2018, 50,000 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £3,300 ($4,237) in relation to the June 15, 2016 warrants issuance.
- On November 26, 2018, 146,970 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £9,700 ($12,432) in relation to the June 15, 2016 warrants issuance.
- On December 17, 2018, 50,000 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £3,300 ($4,163) in relation to the June 15, 2016 warrants issuance.

(ii) A total of 1,136,363 warrants were exercised during the three months ended March 31, 2019 for a $134,915 total increase in common share value of which $99,267 was cash consideration.

- On March 20, 2019, a total of 1,136,363 warrants were exercised at a price of 6.6 UK pence per common share for total cash consideration of £75,000 ($99,267) in relation to the June 15, 2016 warrants issuance.

8. SHARE CAPITAL (continued)

(iii) On January 1, 2019, 1,620,000 stock options of the Company were exercised for a total increase in common share valuation of $304,313 of which $75,812 was cash consideration.

b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Great British Pounds ("GBP") and the functional currency of the Company is the US dollar. Warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. Warrants issued do not include warrants issued to brokers and agents since they fall under the scope of IFRS 2, Share-Based Payments.

	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2017	£ 0.066	1.27	41,775,799	$ 1,698,267
Warrants exercised	0.066	1.05	(7,555,679)	(521,458)
Warrants expired	-	-	(5,864,758)	-
Foreign exchange effect	-	-	-	(63,246)
Realized fair value change at December 31, 2018	-	-	-	166,032
Unrealized fair value change at December 31, 2018	-	-	-	(487,474)
Balance at December 31, 2018	£ 0.066	0.40	28,355,362	$ 792,121
Warrants exercised	0.066	0.21	(1,136,363)	(35,648)
Warrants expired	-	-	(5,420,867)	-
Foreign exchange effect	-	-	-	(7,620)
Unrealized fair value change at March 31, 2019	-	-	-	(135,531)
Realized fair value change at March 31, 2019	-	-	-	(134,915)
Balance at March 31, 2019	£ 0.066	0.21	21,798,132	$ 478,407

The following assumptions were used in arriving at the fair value estimate for the warrants denominated in GBP:

Revaluation at,	December 31, 2018	March 31, 2019
Risk free interest rate (%)	0.77	1.65
Expected volatility (%)	95	115
Share price (GBP)	£0.0849	£0.0813
Foreign exchange rate	0.78	0.77
Remaining life (years)	0.45	0.21

c) Share-based payments

(i) Stock options

The Company has a rolling stock option plan (the "Plan") established to recognize contributions made by key personnel, to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continued association with the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of the grant of the options.

The share-based payments expense that has been recognized in the condensed interim consolidated statements of comprehensive loss for the three months ended March 31, 2019 is $29,664 (2018 - $39,723). The stock options issued pursuant to the Plan vest over a term of 24 months.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

The following tables provide a summary of information about the Company's stock option plan as at:

	March 31, 2019		*December 31, 2018*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**9,840,000**	**$0.06**	9,840,000	$0.06
Exercised	**(1,620,000)**	**-**	-	-
Granted - 2018	**1,005,000**	**$0.16**	1,005,000	$0.16
Granted - 2019	**1,900,000**	**$0.14**		
Total options	**11,125,000**	**$0.07**	10,845,000	$0.07
Vested options	**7,231,250**	**$0.06**	8,420,000	$0.06

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the options that were issued June 15, 2016, October 24, 2017, August 31, 2018 and March 11, 2019:

	June 15, 2016	Oct 24, 2017	Aug 31, 2018	Mar 11, 2019
Risk free interest rate (%)	1.12	2.06	2.22	1.75
Expected life (yrs)	10.0	10.0	10.0	10.0
Expected volatility (%)	109	133	155	127
Dividends	Nil	Nil	Nil	Nil
Forfeiture rate (%)	5.0	5.0	5.0	5.0
Weighted average fair value at issuance	$0.04	$0.05	$0.12	$0.13

(ii) Broker warrants

The following provides a summary of the Company's outstanding broker warrants as at March 31, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.066	**13,200,000**	**1.75**	**£ 0.066**	**13,200,000**
	13,200,000	**1.75**	**£ 0.066**	**13,200,000**

During 2016, the Company entered into the "Collaboration Agreement" with Noble. Under the terms of the Collaboration Agreement, the Company issued 12,000,000 common share purchase warrants to Noble. Each warrant entitled Noble to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2018. The warrants gave Noble the right to acquire up to a 12.5% interest in the Company. On October 26, 2017, as part of the Talaxis placement (Note 8(a)(iv)), Noble cancelled these warrants. Immediately upon cancellation, the Company issued 12,000,000 replacement common share purchase warrants to Noble's wholly owned subsidiary, Talaxis. Each warrant entitled Talaxis to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2020.

During 2016, the Company engaged (the "Engagement") Zenith Advisory Services Pty Ltd. ("Zenith") to facilitate an introduction to Noble and to provide consulting services in respect of the Company entering into a rare earths collaboration agreement with Noble. Under the terms of the Engagement, Zenith is entitled to a fee comprising 10% of the number of warrants issued to Noble under the Collaboration Agreement. The Company issued 1,200,000 warrants to Zenith under the terms of the Engagement. On October 26, 2017, as part of the Talaxis placement (Note 8(a)(iv)), Zenith cancelled these warrants. Immediately upon cancellation, the Company issued 1,200,000 replacement common share purchase warrants to Zenith. Each warrant entitled Zenith to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2020.

The fair value of these warrants, $321,158, determined during the year ended December 31, 2016, using the Black-Scholes option pricing model was recorded in the condensed interim consolidated financial statements as a component of share-based payment expense and contributed surplus. The fair value of each share-based payment option or warrant granted is estimated as of the grant date using the Black-Scholes option-pricing model.

In accordance with IFRS 2 Share-Based Payments, the cancellation and replacement of the warrants is treated as a modification to the originally issued equity instruments. Accordingly, the incremental increase in stock-based compensation expense was recognized in the year ended December 31, 2017.

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST

As of March 31, 2019, Mkango beneficially owns 51% of Lancaster BVI and Talaxis owns a 49% non-controlling interest and holds 49% of the voting rights. On March 28, 2019, Mkango received the most recent Talaxis investment, £7 million ($9,255,853), which increased the non-controlling interest from 20% to 49%. Since the investment was received late in the reporting period, only a portion of the shared Lancaster BVI income is included in the calculations for total loss attributable to non-controlling interest and total comprehensive loss attributable to non-controlling interest.

Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI. Therefore, Talaxis also owns a 49% non-controlling interest of Lancaster Malawi (“Consolidated Lancaster”). Lancaster BVI is incorporated in the British Virgin Islands. Lancaster Malawi is incorporated in Malawi.

Lancaster BVI

On January 19, 2018, Talaxis invested £2 million ($2,772,822) and on January 24, 2018, Talaxis invested a further £3 million ($4,091,728) in Consolidated Lancaster. The investments were pursuant to the agreement dated November 16, 2017, whereby, Talaxis was entitled to receive up to a 49% interest in Mkango’s subsidiary, Consolidated Lancaster, by investing an aggregate of £12 million in Consolidated Lancaster due in three tranches to complete the bankable feasibility study. On March 21, 2019, Mkango announced that it had filed the updated NI 43-101 Technical Resource Report (“Technical Report”) for the Songwe Hill Rare Earths Project. The filing of the Technical Report meant that Mkango had fulfilled the condition for Talaxis to advance the third and final tranche of investment, in accordance with the May 18, 2018 definitive agreements between Mkango and Talaxis. On March 28, 2019, £7 million ($9,255,853) was received from Talaxis, which increased the Talaxis ownership in Consolidated Lancaster to 49%.

On May 18, 2018, Mkango signed the Songwe Joint Venture Agreement, the Talaxis Investment Agreement and the Cooperation Deed (the “Definitive Agreements”) in relation to the Talaxis Agreement. Following the completion of a bankable feasibility study, which is currently underway, Talaxis will be granted the Option to acquire a further 26% interest in Consolidated Lancaster by arranging funding, including investing the equity component, for development of the Songwe Hill project, which, based on the pre-feasibility study prepared by the MSA Group (Pty) Ltd dated December 1, 2015, would total US$216 million. If the Option is exercised, Mkango will hold a 25% interest in Consolidated Lancaster, free carried until production.

The Company paid cash finders' fees totalling £120,000 ($170,856) to Zenith Advisory Services Pty Ltd following the receipt of the second tranche of the Talaxis investment.

The Talaxis non-controlling interest (“NCI”) is as follows:

	Talaxis NCI Ownership
Lancaster BVI	49%

	Condensed interim consolidated Lancaster Financials as of March 31, 2019
Net loss	$(962,677)
Total loss attributable to non-controlling interest	**(188,666)**
Comprehensive loss	(962,824)
Total comprehensive loss attributable to non-controlling interest	**(188,700)**
Current assets	9,894,081
Non-current assets	69,079
Current liabilities	(425,690)
Non-current liabilities	(13,366,142)
Net assets	**(3,828,672)**
Cash flows used in operating activities	(473,350)
Cash flows provided by financing activities	9,255,853
Effect of exchange rate changes on cash	19
Net increase in cash	**$8,782,522**

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST (continued)

Maginito

As at March 31, 2019, Mkango beneficially owns 75.5% of Maginito and Talaxis owns a 24.5% non-controlling interest and holds 24.5% of the voting rights.

On January 24, 2018, Talaxis invested £1 million ($1,302,200) to receive a 24.5% interest in Maginito Limited ("Maginito"), incorporated January 3, 2018 in BVI. Maginito will focus on downstream opportunities relating to the rare earths supply chain, in particular neodymium alloy powders, magnet and other technologies geared to accelerating growth in the electric vehicle market. The use of proceeds includes expenditures under an agreement with Metalysis focused on advanced alloys using neodymium or praseodymium with other elements for magnet development. Payment of an additional £1 million is conditional on completion of a definitive Investment Agreement in respect of Maginito and successful completion of the second phase of the research and development programme with Metalysis, upon which Talaxis will hold a 49% interest in Maginito. The first phase of the research and development programme with Metalysis is currently underway.

The Talaxis non-controlling interest ("NCI") is as follows:

	Talaxis NCI Ownership
Maginito	24.5%

	Condensed interim Maginito Financials as of March 31, 2019
Net loss	$(8,057)
Total loss attributable to non-controlling interest	**(1,974)**
Comprehensive loss	(15,122)
Total comprehensive loss attributable to non-controlling interest	**(3,705)**
Current assets	886,443
Current liabilities	(1,150)
Net assets	**885,293**
Cash flows used in operating activities	(8,057)
Effect of exchange rate changes on cash	19,217
Net increase in cash	**$11,160**

10. FINANCIAL INSTRUMENTS

Determination of fair values

Financial assets and liabilities have been classified into the following categories: (i) fair value through profit or loss and, (ii) amortized costs. Each category has a defined basis of measurement. If a category is measured at fair value, any changes in fair value should be recognized in the condensed interim consolidated financial statements of comprehensive loss.

In establishing fair value, the Company uses a fair value hierarchy based on levels defined below:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

Warrant derivative financial instruments are measured at level 2.

The carrying value of cash, accounts payable and accrued liabilities, and due to related parties, approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value (Note 8(b)). Non-current and current liabilities due to related parties that constitute a deferred payment are initially recorded at fair value, which is determined by discounting the liability using an applicable market rate.

Financial risk management

The Company's management monitors and manages the financial risks relating to the operations of the Company. These include foreign currency, interest rate, liquidity and credit risks.

Foreign currency risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in the Canadian Dollar, the United States dollar, the Euro, the British Sterling, the Australian dollar, the South African rand and Malawian kwacha. The Company raises its equity in the Canadian dollar, the Euro and the British Sterling, and then purchases United States dollar, Australian dollar and Malawian kwacha funds to settle liabilities, as required. The Company's exposure to foreign currency risk as at March 31, 2019 and 2018, is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	March 31, 2019	March 31, 2018
Cash:		
Canadian dollars	$ 181,410	$ 41,073
United States dollars	3,885	5,866
British Sterling	10,861,683	8,505,453
Euro	878	896
Malawi Kwacha	10,742	2,785
Warrants – derivative financial instruments	(478,407)	(1,371,341)
Due to related parties	(225,439)	(303,564)
	$ 10,354,752	$ 6,881,168

A 5% reduction in the value of the Canadian dollar, Euro and British Sterling in comparison to the United States dollar would cause a change in net loss of approximately $522,199. A 5% change in the value of the Malawian Kwacha in relation to the US dollar would not cause a material change in net loss.

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its cash at banks. However, the interest rate risk is expected to be minimal. The Company does not presently hedge against interest rate movements.

(Reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

a) The Company will not have sufficient funds to settle a transaction on the due date;

b) The Company will be forced to dispose of financial assets at a value which is less than the fair value; or,

c) The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issuances or obtain other forms of financing.

The Company manages its liquidity risk by maintaining adequate cash. The Company is actively seeking additional funding to improve its exposure to liquidity risk. The Company continually monitors its actual and forecast cash flows to ensure that there are adequate reserves to meet the maturing profiles of its financial liabilities.

The following table outlines the maturities of the Company's liabilities as at March 31, 2019:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	$ 530,009	$ 530,009	$ -
Due to related parties	$ 225,439	$ 225,439	$ -

Credit risk

The Company's principal financial assets are cash. The credit risk on cash is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies.

11. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Government of Malawi on a three-year basis. The license was subsequently renewed on January 21, 2017 for a further two years, valid January 21, 2017 to January 21, 2019. The Company renewed the license in December 2018, which extends the license for a further two years, valid January 21, 2019 to January 21, 2021. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate as at March 31, 2019 – 730 MWK to 1 USD):

Exploration commitments, 2 years	$ 207,756
Ground rent, 2 years	23,520
Total commitment, 2 years	$ 231,276

On September 10, 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 468 square kilometres in Thambani, Mwanza District, Malawi. The license was issued by the Government of Malawi on a three-year basis, originally, and was subsequently renewed on September 10, 2015, for an additional two years when the Company requested a reduction in the license area to the current 136.9 square kilometres. The license has subsequently renewed for a further 2 years to September 8, 2019. The future spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate as at March 31, 2019 – 730 MWK to 1 USD):

Exploration commitments, 2 years	$ 34,626
Ground rent, 2 years	7,585
Total commitment, 2 years	$ 42,211

On November 10, 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 98.48 square kilometres in Chimimbe Hill, Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter.

(Reported in US dollars unless indicated otherwise)

11. COMMITMENTS (continued)

The license will be up for renewal on November 10, 2020. The future spending commitments for exploration expenses with the Government of Malawi are 75,000,000 Kwacha over three years (foreign exchange rate as at March 31, 2019 – 730 MWK to 1 USD):

Exploration commitments, 3 years	$	103,878
Ground rent, 3 years		4,092
Total commitment, 3 years	$	107,970

The Company is continuing to meet the terms and conditions of its three exploration licenses and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programs. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi.

12. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity $19,805,879, as at March 31, 2019 (December 31, 2018 – $5,038,140). The operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million ($16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 9), from the proceeds received upon the exercise of warrants (Note 8(a)(i) and (ii)) and from the proceeds received upon the exercise of stock options (Note 8(a)(iii)).

The Company's objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has no externally imposed capital requirements.

13. SUBSEQUENT EVENTS

a) On April 11, 2019, 515,151 warrants held by common shareholders were exercised for total cash consideration of £34,000 ($44,449).

b) On April 29, 2019, the Company announced that it has entered into a non-binding heads of terms agreement ("Heads Agreement") with MetalNRG PLC, whereby MetalNRG will earn up to a 75% interest in the Thambani license by spending up to $2 million on exploration. The terms of the Heads Agreement outline that the parties will enter into a binding definitive agreement on or before June 30, 2019 and that MetalNRG's participation in the Thambani license is limited to exploration for uranium. The definitive agreement will include the following elements:

- MetalNRG will spend $500,000 on exploration within the Thambani license within 12 months of the date of the definitive agreement to earn a 25% interest in the Thambani license.
- MetalNRG will have the option to spend a further $700,000 over the second 12-month period to earn an additional 24% interest for a total 49% interest in the Thambani license.
- MetalNRG will have the option to spend a further $800,000 over the second 12-month period to earn an additional 26% interest for a total 75% economic interest in the Thambani license.
- Mkango will have a right of first refusal on 100% off take of the Uranium and other mineral projects.