Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Mkango Resources Ltd.:

Opinion

We have audited the consolidated financial statements of Mkango Resources Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company had accumulated a deficit of $9,461,379, and had negative cash flows from operating activities. As stated in Note 2, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

Calgary, Alberta

MNP LLP

April 30, 2019

Chartered Professional Accountants

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

As at	Note	December 31, 2018	2017
ASSETS			
Current			
Cash		**$2,391,964**	$691,276
Restricted cash	12	**8,738**	-
Government remittances receivable		**68,808**	278,898
Prepaid expenses		**140,692**	10,338
Total currents assets		**2,610,202**	980,512
Property and equipment	5	**75,359**	17,357
Total assets		**2,685,561**	997,869
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**353,347**	70,628
Due to related parties	6	**335,804**	478,809
Warrants – derivative financial instruments	8(b)	**792,121**	192,706
Grant received in advance	7	**63,862**	3,528
Total current liabilities		**1,545,134**	745,671
Non-current			
Warrants – derivative financial instruments	8(b)	**-**	1,505,561
Total liabilities		**1,545,134**	2,251,232
EQUITY (DEFICIENCY)			
Share capital	8(a)	**10,641,411**	9,343,659
Contributed surplus		**3,774,020**	3,660,003
Accumulated other comprehensive income		**84,088**	65,437
Deficit		**(9,461,379)**	(14,322,462)
Total shareholders' equity (deficit) of parent		**5,038,140**	(1,253,363)
Non-controlling interest	9	**(3,897,713)**	-
Total liabilities and shareholders' equity		**$2,685,561**	$997,869
Going concern	2		
Commitments	11		
Subsequent events	15		

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 consolidated financial statements.

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

	Note	For the year ended December 31, 2018	2017
Expenses			
General and administrative		**$1,761,258**	$737,248
Mineral exploration expenditures		**4,539,059**	243,329
Research and development		**410,173**	-
Depreciation	5	**25,906**	11,154
Share-based payments	8(c)	**136,976**	402,120
		6,873,372	1,393,851
Other items			
Interest income		**(1,013)**	(9)
Listing expenses		**89,703**	48,308
Unrealized (gain) loss on revaluation of warrants	8(b)	**(487,474)**	798,247
Realized loss on revaluation of warrants	8(b)	**166,032**	138,238
Accretion	6	**24,512**	68,271
Loss (gain) on deferral of related party consulting fees	6	**7,960**	(20,307)
Foreign exchange loss		**503,036**	102,582
Net loss		**$7,176,128**	$2,529,181
Net loss attributable to			
Common shareholders		**5,721,889**	2,529,181
Non-controlling interest	9	**1,454,239**	-
Attributable net loss		**$7,176,128**	$2,529,181
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		**(18,651)**	(145)
Total comprehensive loss		**$7,157,477**	$2,529,036
Total comprehensive loss attributable to			
Common shareholders		**5,707,751**	2,529,036
Non-controlling interest	9	**1,449,726**	-
Attributable comprehensive loss		**$7,157,477**	$2,529,036
Net loss per share - basic and diluted		**$(0.066)**	$(0.029)
Weighted average shares outstanding basic and diluted		**108,903,087**	86,996,808

Refer to accompanying notes to the consolidated financial statements.

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

		For the year ended December 31,	
	Note	**2018**	2017
Cash flow used by operating activities			
Net loss for the year		**$ (7,176,128)**	$ (2,529,181)
Items not affecting cash:			
Unrealized (gain) loss on revaluation of warrants	8(b)	**(487,474)**	798,247
Share based payments	8(c)	**136,976**	402,120
Depreciation	5	**25,906**	11,154
Accretion	6	**24,512**	(68,271)
Loss on deferral of related party consulting fees	6	**7,960**	20,307
Unrealized foreign exchange (gain) loss on warrants	8(b)	**(63,246)**	116,800
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		**79,158**	274,011
Grant received in advance, net of expenditures		**60,335**	(23,824)
Due to related parties		**91,720**	(193,630)
Accounts payable and accrued liabilities		**28,114**	405,725
Cash flow used by operating activities		**(7,272,167)**	(786,542)
Cash flow provided by financing activities			
Issue of common shares, net of share issue costs	8(a)	**-**	609,448
Investment by non-controlling investor	9	**8,139,497**	-
Warrants exercised	8(a)	**919,366**	479,584
Cash flow provided by financing activities		**9,058,863**	1,089,032
Cash flow used by investing activities			
Purchase of assets	5	**(83,908)**	-
Cash flow used by investing activities		**(83,908)**	-
Effect of exchange rate changes on cash		**6,638**	108
Change in cash		**1,709,426**	302,598
Cash at the beginning of the year		**691,276**	388,678
Cash at the end of the year		**$ 2,400,702**	$ 691,276

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
Reported in US dollars

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Non-Controlling Interest ("NCI")	Total
Balance at December 31, 2016		$8,014,055	$3,272,308	$65,292	$(11,793,281)	$ -	$(441,626)
Common shares issued	8(a)	688,206	(27,030)	-	-	-	661,176
Warrants exercised	8(a)	705,608	123	-	-	-	705,731
Share issue costs	8(a)	(51,728)	-	-	-	-	(51,728)
Warrants issued - agent fee	8(a)	(12,482)	12,482	-	-	-	-
Share based payments	8(c)	-	402,120	-	-	-	402,120
Total comprehensive loss		-	-	145	(2,529,181)	-	(2,529,036)
Balance at December 31, 2017		$9,343,659	$3,660,003	$65,437	$(14,322,462)	$ -	$(1,253,363)
Warrants exercised	**8(a)**	**1,297,752**	**(22,959)**	**-**	**-**	**-**	**1,274,793**
Share based payments	**8(c)**	**-**	**136,976**	**-**	**-**	**-**	**136,976**
Acquisition of shares by NCI	**9**	**-**	**-**	**-**	**-**	**(2,443,474)**	**(2,443,474)**
Gain on recognition of NCI	**9**	**-**	**-**	**-**	**10,582,972**	**-**	**10,582,972**
Total comprehensive loss		**-**	**-**	**18,651**	**(5,721,889)**	**(1,454,239)**	**(7,157,477)**
Balance at December 31, 2018		**$10,641,411**	**$3,774,020**	**$84,088**	**$(9,461,379)**	**$(3,897,713)**	**$1,140,427**

Refer to accompanying notes to the 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 80% owned by Mkango and 20% 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 20% 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 consolidated financial statements.

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

2. GOING CONCERN

These 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 December 31, 2018, the Company had an accumulated deficit of $9,461,379 (December 31, 2017 - $14,322,462) 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 December 31, 2018 and 2017, the licences are in good standing with the Government of Malawi. These factors 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 tranche was received during the year ended December 31, 2018 (Note 9) and the second tranche was received on March 28, 2019 (Note 15(c)). These investments will be used to fund a Feasibility Study for Songwe Hill, with an option to fund project development. The operations of the Company for the next 12 months are also being funded by the proceeds received upon the exercise of warrants (Note 8(a)(iv)).

These 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 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").

3. BASIS OF PRESENTATION (continued)

(b) Basis of presentation and measurement

These 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 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	80%
Maginito Limited ("Maginito")	British Pound	75.5%
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	80%
MKA Exploration Limited ("MKA Exploration")	US Dollar	100%

The 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 (deficit). 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 80% and 75.5% of the respective common outstanding shares held by its subsidiaries, Lancaster BVI and Maginito. These 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 20% of Lancaster BVI, 20% 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 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 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 December 31, 2018 and 2017, management has determined that the Company has not yet reached the development and production stage.

(ii) Functional currency

The determination of 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.

3. BASIS OF PRESENTATION (continued)

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

The following IFRS pronouncement has been issued by the IASB but is not yet effective. The Company does not plan to early adopt this new standard and is currently assessing the impact of this new standard. Certain other new standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 16 leases (New)

IFRS 16, "Leases", issued on January 13, 2016 by the IASB replaces IAS 17 Leases. The new standard introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than twelve months. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 "Revenue from Contracts with Customers" at or before the initial adoption date of January 1, 2018. The Company expects no material impact on the consolidated statement of comprehensive loss or the consolidated statement of financial position.

(g) IFRS pronouncements adopted January 1, 2018

The Company adopted new IFRSs and interpretations as of January 1, 2018, as noted below:

(i) IFRS 15, "Revenue from contracts with customers"

As required, the Company adopted IFRS 15 as of January 1, 2018. IFRS 15 replaces existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard outlines a single comprehensive model for revenue recognition arising from contracts with customers.

IFRS 15 requires that revenue be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract (iii) determine the transaction price; (iv) allocate the transaction price to the

3. BASIS OF PRESENTATION (continued)

performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Impact of the application of IFRS 15

The Company completed an assessment of the impact of IFRS 15. As the Company is not generating any revenues, this standard has no impact on the consolidated financial statements.

(ii) IFRS 9, "Financial instruments"

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The details of IFRS 9 and the nature and effect of changes to previous accounting policies are discussed below.

Classification and measurement of financial assets and liabilities

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification categories are as follows:

Financial assets – The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost are measured using the effective interest method.
- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

  Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

Financial liabilities – The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the Consolidated Statement of Comprehensive Income.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognized in the Consolidated Statement of Comprehensive Income.

  Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model for calculating impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company applied the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables. No change in measurement related to these items was recorded on the prior year comparative information, as there was no material impact.

3. BASIS OF PRESENTATION (continued)

Under IFRS 9, the Company has applied the expedient where the loss allowance for trade receivables must be calculated using the expected lifetime credit loss model and recorded at the time of initial recognition.

Impact of the application of IFRS 9

The following table summarizes the classification impacts of the adoption of IFRS 9:

Financial Instrument	Previous Classification under IAS 39	New Classification under IFRS 9
Financial Assets		
Cash	FVTPL	Amortized cost
Restricted cash	FVTPL	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Due to related party	Other liabilities	Amortized cost
Grant received in advance	Other liabilities	Amortized cost
Warrant – derivative financial	FVTPL	FVTPL

The Company completed an assessment of the impact of IFRS 9 on its consolidated financial statements and determined that there was no material effect on the carrying value of its financial instruments related to this new requirement. A reclassification was required in the transition to IFRS 9 related to cash.

4. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's consolidated financial statements.

(a) Mineral exploration expenditures and property and equipment assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Exploration and evaluation costs which would typically include pre-licensing, preliminary property evaluation, drilling and directly attributable general and administrative costs are recognized in the consolidated statement of comprehensive loss as mineral exploration expenditures, including the costs of acquiring licenses pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors, including the assignment of proven reserves. Upon determination of technical feasibility and commercial viability, the costs incurred prospectively are capitalized to a separate category within property and equipment referred to as a development mineral property.

Property and equipment ("P&E") expenditures

Items of property and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU") for impairment testing. Property and equipment is comprised of office and computer equipment and vehicles.

Property and equipment assets, categorized as mineral interests, are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Gains or losses on disposal of an item of property and equipment, including mineral interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the consolidated statement of comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of comprehensive loss, as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

and bringing in or enhancing production from such reserves, and is accumulated on a property-by-property basis. The carrying amount of any replaced or sold component is derecognized.

(iii) Depletion and depreciation

The net carrying value of development or production assets will be depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those mineral reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Corporate assets, consisting of office equipment, computer equipment and vehicles are recorded at cost and are depreciated over the estimated useful life of the asset on a straight-line basis over a four-year period. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(b) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. The Company records mineral exploration expenditures net of grant proceeds. Grant funding received in advance of incurring eligible mineral exploration expenditures are recorded as grant received in advance on the consolidated statement of financial position.

(c) Impairment

(i) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into CGU's. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less costs of disposal is the amount obtained from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. Reversal of impairment losses are recognized in the consolidated statement of comprehensive loss.

(d) Decommissioning obligation

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

charged against the provision to the extent the provision was established. As at December 31, 2018 and 2017, no decommissioning obligation has been recognised.

(e) Foreign currency translation

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the date of the consolidated statement of financial position for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in the consolidated statement of comprehensive loss.

Foreign currency translation adjustments are required each reporting period for Lancaster Malawi, a subsidiary of the Company, having a functional currency which differs from the presentation currency. Non-financial assets are translated at the historical rate. Financial assets and liabilities are translated at exchange rates in effect at the date of the consolidated statement of financial position and expenses are translated at the average rate. Gains or losses are recognized in other comprehensive loss.

(f) Taxation

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted (or substantively enacted) at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Per share amounts

Basic per share amounts are calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted per share amounts are determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments. All instruments that could have a dilutive effect are considered anti-dilutive when the Company is in a loss position. In addition, options and warrants have a dilutive effect only when the average market price of the Company's common shares during the year exceed the exercise price of the options and warrants (i.e. they are "in the money").

(h) Share-based payments

The Company has issued options and warrants to directors, officers, employees, consultants and strategic partners to purchase common shares. The fair value of options, determined using the Black-Scholes option pricing model on the date they are granted to employees, is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. Options and warrants to non-employees are measured at the fair value of the goods or services received, unless the fair value of the options and warrants are more reliably determinable, and are recognized each reporting date as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated based on historical forfeitures and is adjusted to reflect the estimated number of options and warrants that vest. Volatility is estimated based on historical volatility trends of the Company's own stock, as well as the stock of selected industry peers.

(Reported in US dollars unless indicated otherwise)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash

Cash is comprised of cash on hand.

(j) Provisions

The Company makes a distinction between:

- Provisions: Present obligations, either legal or constructive, arising from past events, the settlement of which is expected to give rise to an outflow of resources, the amount and timing of which are uncertain; and,
- Contingent liabilities: Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events, the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources.

Provisions are recognized when the liability or obligation, giving rise to the indemnity or payment arises, to the extent that its amount can be reliably estimated and it is probable that the commitment will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements, but rather disclosed.

5. PROPERTY AND EQUIPMENT

	Office Equipment	Computer Equipment	Vehicles	Total
Cost				
Balance at December 31, 2016 and 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**

	Office Equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation				
Balance at December 31, 2016	$ 173	$ 16,105	$ -	$ 16,278
Depreciation	29	11,125	-	11,154
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**
Net Book Value				
December 31, 2017	$ 87	$ 17,270	$ -	$ 17,357
December 31, 2018	**$ -**	**$ 9,555**	**$ 65,804**	**$ 75,359**

(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 year ended December 31, 2018, the Company had incurred costs of $79,415 (December 31, 2017 - $48,200) for administrative services. As of December 31, 2018, the Company has an outstanding payable to Leo Mining in the amount of $12,496 (December 31, 2017 – $12,686). 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 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 consolidated financial statements.

d) The Company incurred costs of $774,406 (December 31, 2017 – $384,009) for key management fees, director expenses and retirement allowances for the year ended December 31, 2018. On April 25, 2018, the Board of Directors resolved that each of the directors will be entitled to a payment of $16,000 per year while the Chairman of the Board is entitled to a payment of $40,000 per year, beginning on January 24, 2018. Upon the appointment of three new directors, it was resolved that they are also entitled to a payment of $16,000 per year commencing as of their start date. Two directors of the Company resigned on October 2, 2018. The Company paid each resigning Director a retirement allowance of $54,000. As of December 31, 2018, the Company has an outstanding payable due to key management and directors of $97,792 (December 31, 2017 - $17,743). The current liabilities due to related parties are unsecured, due on demand and non-interest bearing.

December 31,	**2018**	2017
Consulting fees	**$452,426**	$249,157
Director fees	**81,797**	-
Retirement allowance	**108,000**	-
Share-based payments	**132,183**	134,852
Total key management compensation	**$774,406**	$384,009

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. The following table provides a reconciliation of amounts reflected in the consolidated financial statements for the year ended December 31, 2018 and 2017:

December 31,		**2018**	2017
Balance, beginning of year		**$ 448,380**	$ 243,097
Consulting fees (paid) deferred during the year	6 (d)	**(244,969)**	125,989
Loss (gain) on deferral of consulting fees		**7,960**	(20,307)
Accretion		**24,512**	68,271
Foreign exchange (gain) loss		**(10,367)**	31,330
Balance, end of year		**$ 225,516**	$ 448,380
Due to related parties with common directors	6 (a)	**12,496**	12,686
Due to key management and directors	6 (d)	**97,792**	17,743
Total due to related parties		**$ 335,804**	$ 478,809

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. Under the Grant Program, the Company will receive up to €150,000 ($195,585). 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 year ended December 31, 2018, the Company has not incurred any Qualifying Expenditures (December 31, 2017 - $44,464). As of December 31, 2018, the grant received in advance is valued at $63,862 (December 31, 2017 – $3,528).

(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, 2016		83,912,472	$8,014,055
Placement – October 26, 2017	(ii)	14,285,715	661,176
Advisory shares – June 15, 2016 offering	(i)	666,666	27,030
Advisory warrants		-	(12,482)
Warrants exercised	(iii)	4,014,371	705,608
Share issue costs	(ii)	-	(51,728)
Closing balance December 31, 2017		102,879,224	$9,343,659
Warrants exercised	(iv)	8,419,964	1,297,752
Closing balance December 31, 2018		111,299,188	$10,641,411

(i) As a requirement for the June 15, 2016 placement, the Company was required to issue an additional 666,666 common shares to the advisor for assisting with the placement, on June 15, 2017.

(ii) On October 26, 2017, Mkango closed a placement, with Talaxis, a wholly owned subsidiary of Noble Group ("Noble"), whereby Talaxis invested $661,176 (£500,000) in Mkango. Talaxis was issued 14,285,715 common shares of Mkango at 3.5 UK pence per common share, which resulted in Talaxis owning 14.5% of Mkango's outstanding common shares, at that date. The Company paid cash finders' fees totalling $33,687 (£25,000) and issued to Zenith Advisory Services Pty Ltd. 714,285 non-transferable finders' warrants exercisable at a price of 3.5 UK pence for one year from closing.

Share issue costs of $51,728 were incurred.

(iii) On November 24, 2017, a total of 3,445,000 and 417,856 warrants were exercised at an exercise price of 6.6 UK pence and 3.5 UK pence per common share, respectively, for total funds received of £241,995 ($320,981) in relation to the June 15, 2016 warrants issuance. On December 14, 2017, a total of 151,515 warrants were exercised at an exercise price of 6.6 UK pence per common share for total funds received of £10,000 ($13,335) in relation to the June 15, 2016 warrants issuance.

(iv) The following warrants were exercised during 2018 for total increase in common share valuation of $1,297,752 of which $759,475 was cash consideration. $753,334 was received during the current year 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.

8. SHARE CAPITAL (continued)

- 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.

b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Canadian dollars (“CAD”) or 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 (CAD)	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2016	$0.39	£ 0.066	1.46	45,372,314	$ 1,009,367
Warrants exercised	-	0.066	1.55	(3,596,515)	(364,385)
Foreign exchange effect	-	-	-	-	116,800
Realized fair value change at December 31, 2017	-	-	-	-	138,238
Unrealized fair value change at December 31, 2017	-	-	-	-	798,247
Balance at December 31, 2017	$0.39	£ 0.066	1.27	41,775,799	$ 1,698,267
Warrants exercised	0.15	0.066	1.05	(7,555,679)	(521,458)
Warrants expired	0.15	-	-	(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	$0.60	£ 0.066	0.40	28,355,362	$ 792,121

The fair value of each warrant issued is determined at each reporting period using the Black-Scholes pricing model. The following assumptions were used in arriving at the fair value estimate for the warrants denominated in CAD:

Revaluation at,	December 31, 2017	December 31, 2018
Risk free interest rate (%)	1.66 – 1.68	1.64
Expected volatility (%)	117 – 126	89 – 91
Share price (CAD)	$0.11	$0.12
Foreign exchange rate	1.25	1.36
Remaining life (years)	0.58 – 1.25	0.23 – 0.25

8. SHARE CAPITAL (continued)

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

Revaluation at,	December 31, 2017	December 31, 2018
Risk free interest rate (%)	1.68	0.77
Expected volatility (%)	116	95
Share price (GBP)	£0.0725	£0.0849
Foreign exchange rate	0.74	0.78
Remaining life (years)	1.45	0.45

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 consolidated statements of comprehensive loss for the year ended December 31, 2018 is $136,976 (2017 - $402,120). The stock options issued pursuant to the Plan vest over a term of 24 months.

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

	December 31, 2018		*December 31, 2017*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**9,840,000**	**$0.06**	7,000,000	$0.06
Granted	**1,005,000**	**$0.16**	2,840,000	$0.07
Total options	**10,845,000**	**$0.07**	9,840,000	$0.06
Vested options	**8,420,000**	**$0.06**	5,283,333	$0.06

The following provides a summary of the stock option plan as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.06 – 0.16	**10,845,000**	**8.0**	**$ 0.07**	**8,420,000**
	10,845,000	**8.0**	**$ 0.07**	**8,420,000**

The following provides a summary of the stock option plan as at December 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.06 – 0.07	9,840,000	9.0	$ 0.06	5,283,333
	9,840,000	9.0	$ 0.06	5,283,333

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

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 in arriving at the fair value for the options that were issued June 15, 2016, October 24, 2017 and August 31, 2018:

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

(ii) Broker warrants

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.066	**13,200,000**	**2.0**	**£ 0.066**	**13,200,000**
	13,200,000	**2.0**	**£ 0.066**	**13,200,000**

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.066	13,200,000	3.0	£ 0.066	13,200,000
	13,200,000	3.0	£ 0.066	13,200,000

The following tables provide a summary of information about the Company's outstanding broker warrants as at:

	December 31, 2018		*December 31, 2017*	
	Warrants	***Weighted–average exercise price***	*Warrants*	*Weighted–average exercise price*
Opening	**13,200,000**	**£0.066**	13,200,000	£0.066
Cancelled	–	–	(13,200,000)	£0.066
Issued	–	–	13,200,000	£0.066
Closing	**13,200,000**	**£0.066**	13,200,000	£0.066

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)(ii)), 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)(ii)), 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.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

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 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. The incremental increase was measured as the difference between the fair value of the replacement warrants at the modification date and the fair value of the originally issued warrants at the modification date. The incremental increase in stock-based compensation expense recognized on the replacement warrants totalled $259,896 for the year ended December 31, 2017.

The following assumptions were used in arriving at the fair value estimates for the broker warrants:

	December 16, 2016 *Fair value of warrants at issue date*	October 26, 2017 *Fair value of original warrants at modification date*	October 26, 2017 *Fair value of replacement warrants at modification date*
Risk free interest rate (%)	0.78	1.49	1.54
Expected volatility (%)	139	108	141
Share price (GBP)	£0.035	£0.033	£0.033
Foreign exchange rate	1.25	1.31	1.31
Remaining life (yrs.)	2.0	1.1	3.18

(iii) Advisory warrants

The following provides a summary of the Company's outstanding advisory warrants as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
-	-	-	-	-
	-	-	-	-

The following provides a summary of the Company's outstanding advisory warrants as at December 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.035	864,285	0.7	£ 0.035	864,285
	864,285	0.7	£ 0.035	864,285

The following tables provide a summary of information about the Company's outstanding advisory warrants as at:

	December 31, 2018		*December 31, 2017*	
	Warrants	***Weighted–average exercise price***	*Warrants*	*Weighted–average exercise price*
Opening	**864,285**	**£0.035**	567,856	£0.035
Exercised	**(864,285)**	**£0.035**	(417,856)	£0.035
Issued	-	-	714,285	£0.035
Closing	-	-	864,285	£0.035

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

The following assumptions were used in arriving at the fair value estimates for the advisory warrants:

	December 30, 2016 *Fair value of warrants at issue date*	October 26, 2017 *Fair value of warrants at issue date*
Risk free interest rate (%)	0.78	1.44
Expected volatility (%)	147	112
Share price (GBP)	£0.035	£0.033
Foreign exchange rate	1.23	1.31
Remaining life (yrs.)	1.0	1.0

9. NON-CONTROLLING INTEREST

As of December 31, 2018, Mkango beneficially owned 80% of Lancaster BVI and Talaxis owned a 20% non-controlling interest and holds 20% of the voting rights. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI. Therefore, Talaxis also owns a 20% 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 is 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, with the final tranche of £7 million being subject to the completion of a definitive Joint Venture Agreement (the “JV Agreement”) and Mkango publishing an updated National Instrument 43-101 Technical Report in relation to a mineral resource estimate (Note 15(c)). 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 ($168,823) to Zenith Advisory Services Pty Ltd following the receipt of the Talaxis investment.

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST (continued)

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

	Talaxis NCI Ownership
Lancaster BVI	20%

	Consolidated Lancaster Financials as of December 31, 2018
Net loss	$ (6,758,885)
Total loss attributable to non-controlling interest	**(1,351,777)**
Comprehensive loss	(6,757,636)
Total comprehensive loss attributable to non-controlling interest	**(1,351,527)**
Current assets	1,198,043
Non-current assets	75,359
Current liabilities	(281,954)
Non-current liabilities	(13,103,146)
Net assets	**(12,111,698)**
Cash flows used in operating activities	(5,785,814)
Cash flows provided by financing activities	6,864,550
Cash flows used in investing activities	(83,908)
Effect of exchange rate changes on cash	(10,157)
Net increase in cash	**$ 984,671**

Maginito

As at December 31, 2018, 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 ($1,419,477) 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.

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST (continued)

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

	Talaxis NCI Ownership
Maginito	24.5%

	Maginito Financials as of December 31, 2018
Net loss	$ (418,212)
Total loss attributable to non-controlling interest	**(102,462)**
Comprehensive loss	(400,812)
Total comprehensive loss attributable to non-controlling interest	**(98,199)**
Current assets	875,283
Current liabilities	(1,148)
Net assets	**874,135**
Cash flows used in operating activities	(417,067)
Cash flows provided by financing activities	1,274,947
Effect of exchange rate changes on cash	17,403
Net increase in cash	**$ 875,283**

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 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.

10. FINANCIAL INSTRUMENTS (continued)

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 Pound, 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 December 31, 2018 and 2017 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	December 31, 2018	December 31, 2017
Cash:		
Canadian dollars	$ 66,138	$ 166
United States dollars	4,530	11,286
Euro and British Pound	2,203,377	673,015
Malawi Kwacha	126,657	6,809
Warrants – derivative financial instruments	(792,121)	(1,698,267)
Due to related parties	(335,804)	(478,809)
	$ 1,272,777	$ (1,485,800)

A 5% reduction in the value of the Canadian dollar, Euro and British Pound in comparison to the United States dollar would cause a change in net loss of approximately $113,476. 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.

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 December 31, 2018:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	$ 353,347	$ 353,347	$ -
Due to related parties	$ 335,804	$ 335,804	$ -

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.

(Reported in US dollars unless indicated otherwise)

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 December 31, 2018 – 729 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 December 31, 2018 – 729 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. 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 December 31, 2018 – 729 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. RESTRICTED CASH

At December 31, 2018, the Company had restricted cash totalling $8,738 (2017 – $nil). This amount relates to two bonds that were issued by Lancaster Malawi on May 25, 2018, to the Malawi Revenue Authority, customs and excise division, for the temporary importation of drilling equipment. The bonds will be retired once the drilling equipment is returned to its country of origin and the importation taxes and duties are paid in full.

(Reported in US dollars unless indicated otherwise)

13. TAXES

The differences between the tax provisions calculated using the statutory rates and the reported tax provision are as follows:

For the year ended December 31,		2018		2017
Net loss before taxes	$	(7,176,128)	$	(2,529,181)
Statutory tax rate		27%		27%
Expected tax expense (recovery)		(1,937,555)		(682,879)
Increase (decrease) in taxes:				
Revaluation of warrants		(131,591)		252,851
Share-based payments		36,984		105,213
Foreign exchange		(17,076)		31,990
Tax rate differential between Canada and foreign jurisdictions		1,432,802		179,867
Change in deferred tax assets not recognized		616,436		112,958
Tax expense (recovery)	$	-	$	-

No deferred tax assets have been recognized in respect of the following deductible temporary differences as it is not probable that future taxable profit will allow the deferred tax asset to be recovered.

As at December 31,		2018		2017
Property and equipment	$	60,389	$	34,483
Evaluation and exploration costs		10,518,174		5,979,119
Loss carry forwards		12,126,427		9,194,823
Due to related parties		16,047		-
Share issue costs		351,971		652,665
	$	23,073,008	$	15,861,090

As at December 31, 2018, the Company had $3,841,385 (2017 – $3,784,231) in non-capital losses available to claim against future taxable income in Malawi. These non-capital losses do not expire.

As at December 31, 2018, the Company had CDN $4,701,884 (2017 – CDN $3,951,108) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount CDN$
2028	77,375
2029	32,143
2030	58,995
2031	222,922
2032	428,103
2033	582,721
2034	673,101
2035	632,671
2036	594,807
2037	599,194
2038	799,852
	4,701,884

14. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity $5,038,140, as at December 31, 2018 (December 31, 2017 – deficit of $1,253,363). 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 tranche was received during the year ended December 31, 2018 (Note 9) and the second tranche was received on March 28, 2019 (Note 15(c)), and from the proceeds received upon the exercise of warrants (Note 8(a)(iv) and Note 15(b)).

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.

15. SUBSEQUENT EVENTS

a) On January 4, 2019, the Company announced that two former non-executive directors of the Company had exercised their options. An aggregate of 1,620,000 common shares without par value in the share capital of the Company were issued in January 2019. 1,260,000 of the options had an exercise price of C$0.06 per share and 360,000 of the options had an exercise price of C$0.07 per share for a total aggregate consideration of C$100,800 ($75,168).

b) On March 20, 2019, 1,136,363 warrants held by a common shareholder were exercised for total cash consideration of £75,000 ($98,978). On April 11, 2019, a further 515,151 warrants held by a common shareholder were exercised for total cash consideration of £34,000 ($44,449).

c) On March 21, 2019, Mkango announced that it had filed a NI 43-101 Technical Report for the Songwe Hill Rare Earths Project resource update. The filing of the Technical Report means that Mkango has fulfilled the condition for Talaxis to advance the next tranche of investment, totaling £7 million, in accordance with the definitive agreements between Mkango and Talaxis announced on May 18, 2018. On March 28, 2019, the funds of £7 million ($9,130,800) were received related to the third tranche of investment, increasing Talaxis' ownership in Lancaster BVI to 49%.

d) 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% offtake of the Uranium and other minerals.

e) On February 13, 2019, the restricted cash totalling $8,738 (Note 12) was returned to the Company. The bonds were released after the drilling equipment was returned to its country of origin and the importation taxes and duties were paid in full.