Condensed Interim Consolidated Financial Statements

# MKANGO RESOURCES LTD.

For the three and nine months ended September 30, 2018 and 2017

**Unaudited consolidated interim 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 and nine months ended September 30, 2018 and 2017.**

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

| As at | Notes | September 30, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | | $4,521,696 | $691,276 |
| Accounts receivable | | 2,544 | 278,898 |
| Due from related party | | 4,712 | - |
| Prepaid expenses | | 160,398 | 10,338 |
| Total currents assets | | 4,689,350 | 980,512 |
| Property and equipment | 5 | 88,693 | 17,357 |
| Total assets | | 4,778,043 | 997,869 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 626,813 | 70,628 |
| Due to related party | 6 | 432,363 | 478,809 |
| Grant received in advance | 7 | 63,862 | 3,528 |
| Total current liabilities | | 1,123,038 | 552,965 |
| Long term | | | |
| Warrants - derivative financial instruments | 8(b) | 1,377,130 | 1,698,267 |
| Total liabilities | | 2,500,168 | 2,251,232 |
| **EQUITY (DEFICIENCY)** | | | |
| Share capital | 8(a) | 10,440,522 | 9,343,659 |
| Contributed surplus | | 3,716,294 | 3,660,003 |
| Accumulated other comprehensive loss | | 67,812 | 65,437 |
| Deficit | | (8,315,701) | (14,322,462) |
| Total shareholders' surplus (deficit) of parent | | 5,908,927 | (1,253,363) |
| Non-controlling interest | 9 | (3,631,052) | - |
| Total liabilities and shareholders' surplus (deficit) | | $4,778,043 | $997,869 |
| Going concern | 2 | | |
| Commitments | 11 | | |
| Subsequent event | 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 September 30, 2018 | 2017 | For the nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| General and administrative | | $465,989 | $177,476 | $1,119,910 | $457,798 |
| Mineral exploration expenditures | | 2,189,840 | 50,380 | 3,553,439 | 239,496 |
| Research and development | | 7,144 | - | 288,516 | - |
| Depreciation | 5 | 3,038 | 2,788 | 12,572 | 8,365 |
| Share-based payments | 8(c) | 16,813 | 23,615 | 83,730 | 131,433 |
| | | 2,682,824 | 254,259 | 5,058,167 | 837,092 |
| **Other items** | | | | | |
| Interest income | | (106) | (111) | (936) | (114) |
| Accretion | | 1,828 | 5,343 | 32,699 | 47,093 |
| Listing expenses | | 16,474 | - | 68,029 | - |
| Unrealized loss on revaluation of warrants | 8(b) | 13,395 | (136,752) | 131,513 | 166,740 |
| Gain on deferral of related party consulting fees | | - | (943) | - | (20,423) |
| Foreign exchange (gain) loss | | 60,915 | (66,123) | 618,845 | (142,907) |
| **Net loss** | | $2,775,330 | $55,673 | $5,908,317 | $887,481 |
| | | | | | |
| **Net loss attributable to** | | | | | |
| Common shareholders | | 2,252,425 | 55,673 | 4,922,900 | 887,481 |
| Non-controlling interest | 9 | 522,905 | - | 985,417 | - |
| **Attributable net loss** | | 2,775,330 | 55,673 | 5,908,317 | 887,481 |
| | | | | | |
| **Other comprehensive loss** | | | | | |
| Items that may be reclassified subsequently to net income | | | | | |
| Exchange difference on translating foreign operations | | (87) | (3,943) | (2,375) | (65,211) |
| **Total comprehensive loss** | | $2,775,243 | $51,730 | $5,905,942 | $822,270 |
| | | | | | |
| **Total comprehensive loss attributable to** | | | | | |
| Common shareholders | | 2,235,310 | 51,730 | 4,779,982 | 822,270 |
| Non-controlling interest | 9 | 539,933 | - | 1,125,960 | - |
| **Attributable comprehensive loss** | | 2,775,243 | $51,730 | $5,905,942 | $822,270 |
| | | | | | |
| **Net loss per share - basic and diluted** | | $(0.026) | $(0.001) | $(0.055) | $(0.011) |
| **Weighted average shares outstanding basic and diluted** | | 108,818,011 | 83,912,472 | 108,230,080 | 83,912,472 |

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 nine months ended September 30, 2018 | 2017 |
|---|---|---|---|
| **Cash flow used by operating activities** | | | |
| Net income (loss) for the period | | $(5,908,317) | $(887,481) |
| Items not affecting cash: | | | |
| Share based payments | 8(c) | 83,730 | 131,433 |
| Unrealized loss on revaluation of warrants | 8(b) | 131,513 | 166,740 |
| Depreciation | 5 | 12,572 | 8,365 |
| Unrealized foreign exchange (gain) loss | | 627,666 | (143,249) |
| Change in non-cash operating capital | | | |
| Accounts receivable and prepaid expenses | | 121,582 | (275,011) |
| Current liabilities | | 570,073 | 351,347 |
| Cash flow used by operating activities | | (4,361,181) | (647,856) |
| **Cash flow provided by financing activities** | | | |
| Investment by non-controlling shareholder | | 8,284,027 | - |
| Investment, net of investment costs | | - | 535,315 |
| Warrants exercised | | 602,704 | - |
| Cash flow provided by financing activities | | 8,886,731 | 535,315 |
| **Cash flow used by investing activities** | | | |
| Addition of assets | | (83,909) | - |
| Cash flow used by investing activities | | (83,909) | - |
| Effect of exchange rate changes on cash (unrealized) | | (611,221) | 62,839 |
| **Change in cash and cash equivalents** | | 3,830,420 | (49,702) |
| Cash and cash equivalents at the beginning of the period | | 691,276 | 388,678 |
| **Cash and cash equivalents at the end of the period** | | $4,521,696 | $338,976 |

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

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

| | 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 | 688,206 | (27,030) | - | - | - | 661,176 |
| Warrants exercised | 705,608 | 123 | - | - | - | 705,731 |
| Share issue costs | (51,728) | - | - | - | - | (51,728) |
| Warrants issued - agent fee | (12,482) | 12,482 | - | - | - | - |
| Share based payments | - | 402,120 | - | - | - | 402,120 |
| Total comprehensive income | - | - | 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 | 1,096,620 | (27,439) | - | - | - | 1,069,181 |
| Share issue costs | 243 | - | - | - | - | 243 |
| Share based payments | - | 83,730 | - | - | - | 83,730 |
| Acquisition of shares by NCI | - | - | - | - | (2,505,092) | (2,505,092) |
| Gain on recognition of NCI | - | - | - | 10,786,743 | - | 10,786,743 |
| Total comprehensive income | - | - | 2,375 | (4,779,982) | (1,125,960) | (5,903,567) |
| Balance at September 30, 2018 | $10,440,522 | $3,716,294 | $67,812 | $(8,315,701) | $(3,631,052) | $2,277,875 |

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. 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"). 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. 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 wholly owned subsidiaries are collectively referred to as the "Company" in these condensed interim financial statements.

The condensed interim financial statements were authorized for issuance by the Board of Directors of the Company on November 28, 2018.

## 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. The Company has a working capital surplus of $3,566,312 as of September 30, 2018 (December 31, 2017 - $427,547) and has an accumulated deficit of $8,315,701 as of September 30, 2018 (December 31, 2017 - $14,322,462). 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 September 30, 2018, the licences are in good standing with the Government of Malawi.

The operations of the Company for the next 12 months are currently being funded by the net proceeds of equity placements which closed on October 26, 2017 (Note 8), the £6 million of investment proceeds received from Talaxis by two subsidiaries, Lancaster BVI and Maginito, in January 2018, and from the proceeds received upon the exercise of warrants on November 24, 2017, December 14, 2017, January 12, 2018, January 25, 2018, January 26, 2018, March 1, 2018, September 6, 2018, September 27, 2018 and November 16, 2018 (Note 8).

The spending commitments to the Malawi Government required to maintain the exploration licenses in good standing may indicate material uncertainties, which might cast significant doubt on the Company's ability to continue as a going concern. In addition, should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. 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 in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these Financial Statements do not include all of the information and footnotes required by the IFRS for complete annual financial statements, and should be read in conjunction with the Company's consolidated audited financial statements for the year ended December 31, 2017.

### (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 | 80% |
| Maginito Limited ("Maginito") | US Dollar | 75.5% |
| Lancaster Exploration Limited ("Lancaster Malawi") | Malawi Kwacha | 80% |
| 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 wholly owned subsidiaries listed above. All intercompany balances and transactions are eliminated upon consolidation.

### (d) Non-controlling interest

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Company's equity. 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 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 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 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 period in which the estimates are revised and in any future periods 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 September 30, 2018, management has determined that the Company has not yet reached the development and production stage.

**3. BASIS OF PRESENTATION (continued)**

(ii) Functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of each entity if there is a change in events and conditions, which determine the primary economic environment.

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))

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 pronouncements have been issued by the IASB as at December 31, 2017 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations and is currently assessing the impact of these new or amended standards and interpretations. 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.

(i) 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 and the Company will add the required note disclosure.

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

(ii) 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.

**(Reported in US dollars unless indicated otherwise)**

**3. BASIS OF PRESENTATION (continued)**

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 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.

(iii) IFRS 9, "Financial instruments"

As required, the Company adopted IFRS 9 as of January 1, 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model.

Under IFRS 9, 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 primary measurement categories for financial assets: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and, (iii) fair value through other comprehensive income ("FVTOCI"). The Company's current financial assets are measured at amortized cost or FVTPL.

IFRS 9 will apply to the financial instruments of the Company as follows:

| | |
|---|---|
| • Cash and cash equivalents | FVTPL |
| • Deposits | Amortized cost |
| • Amounts receivable | Amortized cost |
| • Accounts payable and accrued liabilities | Amortized cost |
| • Due to related party | Amortized cost |

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

**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, 2017. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2017.

**5. PROPERTY AND EQUIPMENT**

| | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Balance at December 31, 2016 | $ 44,789 | $ (16,278) | $ 28,511 |
| Depreciation | - | (11,154) | (11,154) |
| Balance at December 31, 2017 | $ 44,789 | $ (27,432) | $ 17,357 |
| Additions | 83,908 | - | 83,908 |
| Depreciation | - | (12,572) | (12,572) |
| Balance at September 30, 2018 | $ 128,697 | $ (40,004) | $ 88,693 |

**(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 nine months ended September 30, 2018, the Company had incurred costs of $57,620 (September 30, 2017 - $30,130) for administrative services. As of September 30, 2018 the Company has an outstanding payable to Leo Mining in the amount of $11,817 (September 30, 2017 – $15,802). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however, this has been waived since 2013.

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 $481,313 (September 30, 2017 – $169,522) for key management and director expenses and retirement allowances for the nine months ended September 30, 2018. Two Directors of the Company resigned during September 2018. The Company made a commitment to pay each resigning Director a retirement allowance of $54,000. As of September 30, 2018 the Company has an outstanding payable due to key management and directors of $142,826 (September 30, 2017 - $877). The current liabilities due to related parties are unsecured, due on demand and non-interest bearing.

e) On April 25, 2018, the Board of Directors resolved that one 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 entitled to a payment of $16,000 per year commencing on their start date. The compensation will be paid quarterly. The Company incurred costs of $63,797 for the nine months ended September 30, 2018 (September 30, 2017 – nil). As of September 30, 2018 the Company has an outstanding payable to its Directors in the amount of $26,000 (September 30, 2017 - $nil).

On May 12, 2016, the Company entered into new consulting agreements (the "Consulting Agreements") with its Chief Executive Officer and President (the "Executive Directors") whereby a total of £145,619 ($189,873), comprising deferred consulting fees payable to the Executive Directors were accrued between March 2015 and May 12, 2016. Additional consulting fees were accrued from May 12, 2016 until July 31, 2017, which increased the accrual by £210,000 ($289,332). On March 2, 2018, £177,810 ($212,764) was paid to the Executive Directors. As a result, the Executive Directors are now owed £32,190 ($41,972) for the May 12, 2016 until July 31, 2017 portion of the accrual. Under the terms of the Consulting Agreements, these deferred consulting fees in addition to the balance of unpaid and accrued consulting fees prior to May 12, 2016, (£177,809 ($231,845)) remain as an outstanding current liability.

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 under the Agreement. The following table provides a reconciliation of amounts reflected in the condensed interim consolidated financial statements for the nine months ended September 30, 2018:

| | | September 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Balance, beginning of period | | $ 448,380 | $ 243,097 |
| Consulting fees deferred (paid) during the year | 6 (f) | (244,970) | 125,989 |
| Gain on deferral of consulting fees | | - | (20,307) |
| Accretion | | 32,699 | 68,271 |
| Foreign exchange loss | | (493) | 31,330 |
| Balance, end of period | | $ 251,720 | $ 448,380 |
| Due to related parties with common directors | 6 (a) | 11,817 | 12,686 |
| Due to key management and directors | 6 (c) (d) | 168,826 | 17,743 |
| Total due to related parties | | $ 432,363 | $ 478,809 |

**(Reported in US dollars unless indicated otherwise)**

## 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") will qualify for use of the grant funding. On February 6, 2018, Lancaster BVI received another €49,589 ($64,659). As of September 30, 2018, the Company has incurred $49,631 in Qualifying Expenditures reducing the grant received in advance to $63,862 (December 31, 2017 – $3,528).

## 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.

On June 14, 2016, the Company completed a share consolidation of its common shares on the basis of one post-consolidated common share for every three pre-consolidated common shares. Unless otherwise noted, all references herein to number of shares, warrants or options; price per share, warrant or option; or weighted average shares, options or warrants outstanding have been adjusted to reflect the share consolidation on a retroactive basis.

| | 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 | (iii) | 7,039,661 | 1,096,620 |
| Share issue costs | | - | 243 |
| Closing balance September 30, 2018 | | 109,918,885 | $10,440,522 |

(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, 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.

**8. SHARE CAPITAL (continued)**

The following warrants were exercised during 2018 for total increase in common share valuation of $1,096,620 of which $602,704 was cash consideration:

- On January 12, 2018, a total of 2,006,060 warrants were exercised at a price of 6.6 UK per common share for total cash consideration of £132,400 ($179,046) in relation to the June 15, 2016 warrants issuance.
- On January 12, 2018, a total of 150,000 agent warrants were exercised at a price of 3.5 UK per common share for total cash consideration of £5,246 ($7,094) in relation to the December 31, 2016 warrants issuance.
- On January 25, 2018, a total of 1,566,650 warrants were exercised at a price of 6.6 UK 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 ($18,060) 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 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$0.09 per common share for total cash consideration of C$41,210 ($41,181) in relation to the March 24, 2014 warrants issuance.
- On September 6, 2018, a total of 554,545 warrants were exercised at a price of 6.6 UK per common share for total cash consideration of £36,600 ($47,072) 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 per common share for total cash consideration of £25,000 ($32,740) in relation to the October 26, 2017 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 | - | - | - | (3,596,379) | (364,385) |
| Foreign exchange effect | - | - | - | - | 116,800 |
| Fair value change at December 31, 2017 | - | - | - | - | 936,485 |
| Balance at December 31, 2017 | $0.39 | £ 0.066 | 1.27 | 41,775,935 | $1,698,267 |
| Warrants exercised | - | - | - | (6,175,376) | (430,669) |
| Warrants expired | | | | (4,498,091) | - |
| Foreign exchange effect | - | - | - | - | (21,981) |
| Fair value change at September 30, 2018 | - | - | - | - | 131,513 |
| Balance at September 30, 2018 | $0.39 | £ 0.066 | 0.54 | 31,102,468 | $1,377,130 |

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 | September 30, 2018 |
|---|---|---|
| Risk free interest rate (%) | 1.66 – 1.68% | 1.55 – 1.60% |
| Expected volatility (%) | 117 – 126% | 117 – 120% |
| Share price (CAD) | $0.11 | $0.15 |
| Foreign exchange rate | 1.25 | 1.29 |
| Remaining life (years) | 0.58 – 1.25 | 0.05 – 0.51 |

## 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 | September 30, 2018 |
|---|---|---|
| Risk free interest rate (%) | 1.68% | 2.00% |
| Expected volatility (%) | 116% | 129% |
| Share price (GBP) | £0.0725 | £0.088 |
| Foreign exchange rate | 1.35 | 1.31 |
| Remaining life (years) | 1.45 | 0.71 |

### c) Share-based payments

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 nine months ended September 30, 2018 is $83,730 (2017 - $131,433). 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 at September 30, 2018:

| Option grant date | Number of options | Number of options vested | Expiry date | Exercise Price | Remaining contractual life (yr) |
|---|---|---|---|---|---|
| September 25, 2013 | 66,666[1] | 66,666 | September 24, 2023 | $0.06 | 5.0 |
| May 30, 2014 | 66,667[1] | 66,667 | May 29, 2024 | $0.06 | 5.7 |
| June 15, 2016 | 6,866,667 | 6,866,667 | June 14, 2026 | $0.06 | 7.7 |
| October 24, 2017 | 2,840,000 | 710,000 | October 23, 2027 | $0.07 | 9.1 |
| August 29, 2018 | 1,005,000 | - | August 28, 2028 | $0.16 | 9.9 |
| Total | 10,845,000 | 7,710,000 | | $0.07 | 8.2 |

(1) Following the share consolidation in 2016, the Board of Directors noted that the stock options were "out of the money" and as a result failed to meet the objectives of the stock option plan. The Board of Directors determined that it was in the best interest of the Company to issue additional stock options. The stock options outstanding prior to consolidation were cancelled, with the exception of 133,333 stock options held by consultants, which were re-priced to C$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 in arriving at the fair value for the options that were issued June 15, 2016, October 24, 2017 and August 29, 2018:

| | June 15, 2016 | October 24, 2017 | August 29, 2018 |
|---|---|---|---|
| Risk free interest rate (%) | 1.12 | 2.06 | 2.32 |
| Expected life (yrs) | 10.0 | 10.0 | 10.0 |
| Expected volatility (%) | 109 | 133 | 141 |
| Dividends | Nil | Nil | Nil |
| Forfeiture rate (%) | 5 | 5 | 5 |
| Weighted average fair value at issuance | $0.04 | $0.05 | $0.12 |

**(Reported in US dollars unless indicated otherwise)**

## 9. NON-CONTROLLING INTEREST

As of the date of this report, 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 and on January 24, 2018, Talaxis invested a further £3 million 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 compliant mineral resource estimate. 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, Talaxis will be granted the Option to acquire a further 26% interest in Consolidated Lancaster by arranging funding 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 $168,823 (£120,000) to Zenith Advisory Services Pty Ltd following the receipt of the Talaxis investment.

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

| | **Talaxis NCI Ownership** |
|---|---|
| Lancaster BVI | 20% |

| | **Consolidated Lancaster Financials as of September 30, 2018** |
|---|---|
| Net loss | $5,163,938 |
| **Total loss attributable to non-controlling interest** | **(912,923)** |
| Comprehensive loss | 5,281,000 |
| **Total comprehensive loss attributable to non-controlling interest** | **(1,029,985)** |
| Current assets | 3,241,597 |
| Non-current assets | 88,693 |
| Current liabilities | (621,077) |
| Non-current liabilities | (13,384,654) |
| **Net assets** | **(10,675,440)** |
| Cash flows used in operating activities | (4,117,939) |
| Cash flows used in investing activities | 6,864,550 |
| Cash flows from financing activities | (83,909) |
| Effect of exchange rate changes on cash | (603,664) |
| **Net increase in cash** | **$2,059,038** |

**(Reported in US dollars unless indicated otherwise)**

**9. NON-CONTROLLING INTEREST (continued)**

Maginito

As of the date of this report, 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 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 include expenditures under an agreement with Metalysis Limited ("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 Talaxis non-controlling interest ("NCI") is as follows:**

| | **Talaxis NCI Ownership** |
|---|---|
| Maginito | 24.5% |

| | **Maginito Financials as of September 30, 2018** |
|---|---|
| Net loss | $391,735 |
| **Total loss attributable to non-controlling interest** | **(72,494)** |
| Comprehensive loss | 415,217 |
| **Total comprehensive loss attributable to non-controlling interest** | **(95,975)** |
| Current assets | - |
| Current liabilities | 2,341 |
| **Net assets** | **2,341** |
| Cash flows used in operating activities | (293,549) |
| Cash flows used in investing activities | 1,419,477 |
| Effect of exchange rate changes on cash | (95,845) |
| **Net increase in cash** | **$1,030,083** |

## 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, (ii) loans and receivables, and, (iii) for most liabilities, other financial liabilities. Each category has a defined basis of measurement. If a category is measured at fair value, a determination is then made whether 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.

Cash and cash equivalents are measured at level 1; warrant derivative financial instruments are measured at level 2.

The carrying value of accounts receivable, subscriptions receivable, accounts payable and accrued liabilities and current liabilities 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 (Note 6(f)).

**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 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 September 30, 2018 and 2017 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

| | As at September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash and cash equivalents: | | |
| Canadian dollars | $ 27,884 | $ 167 |
| United States dollars | 7,836 | 787 |
| Euro and UK Sterling | 4,479,424 | 337,649 |
| Malawi Kwacha | 6,552 | 373 |
| Warrants – derivative financial instruments | (1,377,130) | (1,121,266) |
| Due to related parties | (432,363) | (350,331) |
| | $ 2,712,203 | $ (1,132,621) |

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 $224,000. A 5% change in the value of the Malawian Kwacha in relation to the United States 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 and cash equivalents 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;

**(Reported in US dollars unless indicated otherwise)**

**10. FINANCIAL INSTRUMENTS (continued)**

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 and cash equivalents. 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 September 30, 2018:

| | Contractual Cash Flows | Less than 1 Year | Greater than 1 Year |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 626,813 | $ 626,813 | $ - |
| Due to related parties | $ 432,363 | $ 432,363 | $ - |

**Credit risk**

The Company's principal financial assets are cash and cash equivalents and accounts receivable. The credit risk on cash and cash equivalents 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 Malawi Government on a three-year basis, originally, and has subsequently been renewed with the most recent renewal on January 21, 2017 for a further 2 years to January 21, 2019. 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 September 30, 2018 – 720 MWK to 1 USD):

| | |
|---|---|
| Exploration commitments, 2 years | $ 208,333 |
| Ground rent, 2 years | 23,586 |
| Total commitment, 2 years | $ 231,919 |

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 Malawi Government 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 September 30, 2018 – 720 MWK to 1 USD):

| | |
|---|---|
| Exploration commitments, 2 years | $ 34,722 |
| Ground rent, 2 years | 7,606 |
| Total commitment, 2 years | $ 42,328 |

**(Reported in US dollars unless indicated otherwise)**

## 11. COMMITMENTS (continued)

On November 14, 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 Malawi Government on a three-year basis, and will be available for renewal every two years, thereafter. 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 September 30, 2018 – 720 MWK to 1 USD):

| | | |
|---|---|---|
| Exploration commitments, 3 years | $ | 104,167 |
| Ground rent, 3 years | | 4,103 |
| Total commitment, 3 years | $ | 108,270 |

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 a $5,908,927 parent Company's shareholders' surplus, as at September 30, 2018. The operations of the Company for the next 12 months are currently being funded by the net proceeds of equity placements which closed on October 26, 2017, the £6 million of investment proceeds received from Talaxis by two subsidiaries, Lancaster BVI and Maginito, in January 2018, and from the proceeds received upon the exercise of warrants on November 24, 2017, December 14, 2017, January 12, 2018, January 25, 2018, January 26, 2018, March 1, 2018, September 6, 2018, September 27, 2018 and November 16, 2018 (Note 8).

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 October 2, 2018, the Company held its annual general and special meeting during which a special resolution was passed to discontinue its registration in the province of Alberta, Canada and to continue the Company from the jurisdiction of Alberta to British Columbia pursuant to the Business Corporations Act. In addition, Mr Shaun Reginald Treacy was appointed as a Director of the Company.

b) On October 19, 2018, 1,133,333 warrants were exercised for aggregate cash consideration of $129,780.

c) On November 16, 2018, 50,000 warrants were exercised for aggregate cash consideration of £3,300.

d) On November 26, 2018, 146,970 warrants were exercised for aggregate cash consideration of £9,700.