MKANGO RESOURCES LTD

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the six months ended June 30, 2016 and 2015

The following Management's Discussion and Analysis ("MD&A") of Mkango Resources Ltd. ("Mkango" or the "Company") was prepared in accordance with the requirements of National Instrument 51-102, Continuous Disclosure Obligations, and it should be read in conjunction with the consolidated financial statements and accompanying notes for the six months ended June 30, 2016 (the "Financial Statements"). The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are prepared in United States dollars unless otherwise stated. This document is dated August 26, 2016.

The Board of Directors of the Company have reviewed and approved the information contained in this MD&A and the Financial Statements.

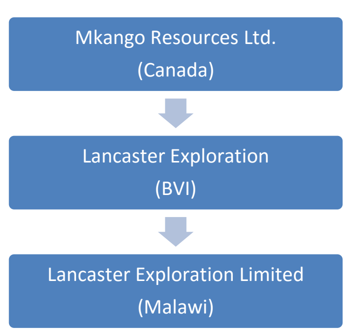
Readers are cautioned that this MD&A contains certain forward-looking statements. Please see the section concerning "Forward Looking Statements" below.

Additional information relating to the Company, including the Company's Filing Statement, can be found on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The Company is listed on the TSX Venture Exchange under the symbol MKA.

FORWARD LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Mkango's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, accuracy of current drill and other exploration results, environmental risks, changes in environmental, tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Mkango's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Mkango will derive there from. Mkango disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

COMPANY OVERVIEW



Mkango is an exploration and development company focused on rare earths and associated minerals with properties in the Republic of Malawi, Africa, specifically, the Phalombe exploration license ("Phalombe License") and the Thambani exploration license ("Thambani License"). The Company's headquarters are in Calgary, Alberta, Canada.

Mkango was originally incorporated under the name Alloy Capital Corp. under the laws of the Province of Alberta, Canada. Mkango completed its initial public offering on August 27, 2008 as a Capital Pool Corporation as defined by Policy 2.4 of the TSX Venture Exchange ("Policy 2.4"). On December 20, 2010 Mkango completed its Qualifying Transaction, as defined in Policy 2.4, by acquiring all of the issued and outstanding shares of Lancaster Exploration ("Lancaster") through a reverse-takeover, which closed on December 20, 2010.

Lancaster was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the BVI Companies Act. Lancaster's registered office is located at 56 Administration Drive, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Lancaster is a wholly owned subsidiary of Mkango.

Lancaster Exploration Limited ("Lancaster Malawi"), a wholly owned subsidiary of Lancaster, was incorporated under the laws of Blantyre, Malawi on May 19, 2011.

GOING CONCERN

These consolidated interim 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 $559,440 (2015 - $159,103), negative cash flows from operating activities as is normally the case for a mineral exploration company and has an accumulated loss since incorporation of $11,930,242 (December 31, 2015 - $10,936,373). 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 (see Commitments). As of June 30, 2016, the licences are in good standing with the Government of Malawi.

On June 15, 2016 the Company commenced trading its common shares on the AIM market of the London Stock Exchange ("AIM") in order to gain access to additional equity markets. At the time of its AIM listing, the Company raised gross proceeds of £1 million. The Company forecast that the net proceeds of the fund raising, totalling £545,000, would fund the working capital requirements of the Company for the next 18 months.

As at the current date, the Company's expenditures remain within budget.

The budget does not include salaries or payments for any of the Executive Directors going forward. Salaries are deferred and included in long term liabilities, and will only be paid in the future subject to various conditions as set out in Related Party Transactions and in the Company's AIM admission document. No fees are payable to Non-Executive Directors. The Directors are currently incentivised through existing direct and indirect shareholdings, and through the Company's share option scheme.

The budget does not include drilling on either project. Based on the pre-feasibility study announced in November 2015, the Probable Mineral Reserve estimate for the Songwe Hill rare earths project ("Songwe") is already sufficient for 18 years of mine life. Nevertheless, there is potential to significantly expand production or the mine life and for a lower strip ratio given the large additional Inferred Resource and potential to expand the Mineral Resource in the future.

The budget is focused on optimisation of Songwe with a view to maximising efficiency and reducing costs, thereby providing an enhanced platform for entering into partnerships, marketing and off take arrangements, research and development in collaboration with a number of major research programmes, environmental baseline studies, further data interpretation and modelling, and costs of maintaining the licences.

As expected, the costs of the AIM listing, totalling approximately £455,000, accounted for a significant portion of the use of proceeds of the £1 million as outlined in the Company's AIM admission document. It was and remains the Company's view that the benefits of the dual listing outweigh the costs of the AIM listing process. The Company's rationale for listing on AIM is discussed in the Liquidity and Capital Resources on page 12.

The Company intends to bring in a joint venture, financial or strategic partner to fund the next stages of development for the assets, being a bankable feasibility study, including further drilling, for the Songwe Hill rare earths project and further exploration, including drilling, on the Thambani uranium project. It is anticipated that a bankable feasibility study for Songwe would take 12 – 18 months from receipt of funding for the bankable feasibility study.

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 consolidated interim 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.

HIGHLIGHTS

As of June 30,	2016	2015
Cash used by operations	$ (186,030)	$ (162,592)
Total comprehensive income (loss)	(900,364)	918,206
Income (loss) per share - basic and diluted	$ (0.02)	$ 0.01
Weighted average common shares outstanding	42,957,910	73,296,956
Evaluation and exploration spending:		
Malawi – Mineral exploration expenditures	58,682	290,171
Current assets	1,152,543	77,120
Current liabilities	(593,103)	(402,019)
Working capital	$ (559,440)	$ (324,899)

SUMMARY OF QUARTERLY RESULTS

	2016		**2015**				**2014**	
Total Operations	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Interest income	$-	$2	$1	$ -	$2	$5	$(17)	$31
Expenses	518,391	211,526	194,453	163,950	163,982	238,229	622,726	611,920
Warrant fair value loss (gain)	275,861	83,132	144,616	(115,106)	(1,336,185)	15,775	(2,656,627)	2,144,504
Net income (loss) for period	(794,252)	(294,656)	(339,068)	(48,844)	1,172,205	(253,999)	2,033,884	(2,756,393)
Loss per share - basic and diluted	$(0.02)	$(0.00)	$(0.00)	$(0.00)	$0.01	$(0.00)	$0.03	$(0.04)
Total assets	1,184,254	132,918	252,935	384,714	77,278	75,993	185,678	711,573
Cash	*1,121,239*	*87,774*	*208,161*	*328,246*	*62,303*	*63,066*	*161,009*	*523,993*

The financial data for the periods reported 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”), in effect on December 31, 2015. The financial data is presented in US dollars.

The Company’s principal activities require expenditures which include both exploration and general and administrative expenses.

The Company recognized a net loss of ($794,252) compared to a net income of $1,162,770 for the three months ended June 30, 2016 and 2015, respectively. The net loss recognized for the three months ended June 30, 2016 was primarily the result of a non-cash ($275,861) revaluation loss of the Company’s outstanding warrants and a non-cash ($199,117) foreign exchange loss due to Sterling depreciation in the wake of the UK’s referendum on EU membership and decision to leave the EU. In comparison, there was a $1,336,185 revaluation gain recognized for the three months ended June 30, 2015 on the Company’s outstanding warrants and a $38,702 foreign exchange gain for the same period. The mineral exploration expenditures for the three months ended June 30, 2016 was $31,003 compared to $46,316 for the three months ended June 30, 2015. Stock based compensation expense was $165,005 for the three months ended June 30, 2016 (2015 - $47,182) as a result of issuing options on June 14, 2016, whereby the issuance vests and is expensed over a 24 month period. General and administrative expenses totaled $25,587 for the three months ended June 30, 2016 (2015 - $109,178).

The Company recognized a net loss of $294,656 compared to a net loss of $253,999 for the three months ended March 31, 2016 and March 31, 2015, respectively. The difference in the net loss when compared to the prior year was the result of higher mineral exploration expenditures. The mineral exploration expenditures for the three months ended March 31, 2015 were reduced to a credit of ($21,530) as the result of receiving a $104,728 refund through the DTI grant program. In comparison, mineral exploration expenditures for the three months ended March 31, 2016 were $27,679. The Stock based compensation expense was $8,698 for the three months ended March 31, 2015 (2015 - $63,573) as a result of issuing options on May 30, 2014, whereby the issuance vests and is expensed over a 24 month period. General and administrative expenses were $175,846 for the three months ended March 31, 2016 (2015 - $180,993).

The Company recognized net loss of $339,068 and income of $2,033,884 for the three months ended December 31, 2015 and 2014, respectively. The net income recognized for the three months ended December 31, 2014 was primarily the result of a $2,656,627 revaluation gain on the Company's outstanding warrants. In comparison, there was a ($144,616) revaluation loss recognized for the three months ended December 31, 2015 on the Company's outstanding warrants. General and administrative costs of $660,594 (2014 - $1,200,290) were comprised primarily of consulting and professional fees and office expenses required to maintain the on-going operations of the Company. Stock based compensation expense was $32,101 for the three months ended December 31, 2015 (2014 - $71,225) as a result of issuing options on May 30, 2014, whereby the options vest and are expensed over a 24 month period. The mineral exploration expenditures for the three months ended December 31, 2015 was $109,785 compared to an expense of $210,998 for the three months ended December 31, 2014. The Company was approved to receive the South African Department of Trade and Industry ("DTI") grant on May 26, 2014 for an amount of ZAR 7,967,804 (USD$575,044) under the Capital Projects Feasibility Program. In 2015 monies received as a result of the DTI grant resulted in a net refund of costs.

The Company recognized a net loss of $48,844 and $2,756,393 for the three months ended September 30, 2015 and 2014, respectively. The net loss recognized for the three months ended September 30, 2015 was primarily the result of a $115,106 revaluation gain on the Company's outstanding warrants. In comparison, there was a ($2,144,504) revaluation loss recognized for the three months ended September 30, 2014 on the Company's outstanding warrants. General and administrative costs of $137,980 (2014 - $204,036) was comprised primarily of consulting and professional fees and office expenses required to close the July 31, 2015 non-brokered private placement and to maintain the on-going operations of the Company. Stock based compensation expense was $29,788 for the three months ended September 30, 2015 (2014 - $156,899) as a result of issuing options on May 30, 2014, whereby the options vest and are expensed over a 24 month period. The expense was significantly higher for the nine months ended September 30, 2014 because both the September 25, 2013 and May 30, 2014 stock option issuances were being expensed. The mineral exploration expenditures for the three months ended September 30, 2015 was a refund of ($622) compared to an expense of $212,522 for the three months ended September 30, 2014.

The Company's cash balance as at June 30, 2016 was $1,121,239 (December 2015 - $208,161).

DISCUSSION OF OPERATIONS

Mkango holds, through its wholly owned subsidiary Lancaster Exploration Limited, a 100% interest in two exclusive prospecting licenses in southern Malawi, the Thambani Licence and the Phalombe Licence.

The main exploration target in the Phalombe licence is the Songwe Hill rare earths deposit, which features carbonatite hosted rare earth mineralisation and was subject to previous exploration in the late 1980s. Mkango completed an updated pre-feasibility study for the project in November 2015. Mkango's strategy for Songwe is to further optimise the project with a view to maximising efficiency and reducing costs, thereby providing a strong platform both for entering into partnerships, marketing and off-take arrangements.

The main exploration targets in the Thambani licence are uranium, niobium and tantalum. In January 2015, Mkango announced the first set of assay results of 142 soil and rock chip samples from 9 trenches, which returned variably anomalous uranium, niobium and tantalum values in most trenches, ranging up to 4.70 % U_3O_8, 3.25 % Nb_2O_5 in soil and up to 0.42 % U_3O_8, 0.78 % Nb_2O_5 and 972 ppm Ta_2O_5 in rock chips. In July 2016, the Corporation announced the results of an airborne geophysical survey covering approximately two thirds of the licence area, highlighting a number of significant radiometric and magnetic anomalies.

The company's corporate strategy is to develop new sustainable sources of rare earth elements and other minerals geared to growth in the low carbon "green" economy, technology and the Fourth Industrial Revolution.

1. SONGWE HILL

The Phalombe License covers an area of 849.1 square kilometers ("sq km") in southeast Malawi. The main exploration target in the license are is the Songwe Hill deposit, which features carbonatite hosted rare earth mineralization and was subject to previous exploration programs in the late 1980s. Lancaster was awarded the license on January 21, 2010.

The Phalombe License runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the Phalombe License have been met. The license was renewed for a further two years on January 21, 2015. The company requested that the licence area be reduced to the current area of 849.1 sq km. The Company is continuing to meet the terms and conditions of the license and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress on its work program.

Management believes that all necessary permits for Lancaster's current phase of the exploration program have been obtained.

Songwe is accessible by road from Zomba, the former capital, and Blantyre, the principal commercial town of Malawi. Total travel time from Zomba is approximately 2 hours, which will reduce as infrastructure continues to be upgraded in the area. Songwe is a volcanic vent that is expressed as a steep-sided hill rising some 230m above the surrounding plain.

The drilling programs completed in 2011 and 2012, focused on an area measuring approximately 350 by 100 meters comprising rare earth enriched carbonatite, carbonatite breccia and fenite lithologies, largely exposed at surface. A total of 25 holes were completed in the 2012 Stage 2 program for a total of approximately 4,860 meters to a maximum vertical depth of approximately 350 meters. The Stage 2 program was designed to complement the 13 hole, 2,000 meter Stage 1 drilling program and systematic channel sampling completed in 2011.

On November 22, 2012, Mkango filed a Technical Report (the "Report") for its maiden NI 43-101 mineral resource estimate entitled, *NI 43-101 Technical Report and Mineral Resource Estimate for the Songwe Hill Rare Earth Element (REE) Project, Phalombe District, Republic of Malawi*, authored by Scott Swinden, PhD, PGeo and Michael Hall, Pr.Sci.Nat., MAusIMM. The Report's mineral resource estimates, as previously announced, are summarized below. For further details of the mineral resource estimates including breakdowns thereof, please refer to the Report, which is available at www.sedar.com.

Cut-off grade	*In-situ* Indicated Mineral Resource estimate	*In-situ* Inferred Mineral Resource estimate
1.0% TREO	13.2 mt grading 1.62% TREO	18.6 mt grading 1.38% TREO
1.5% TREO	6.2 mt grading 2.05% TREO	5.1 mt grading 1.83% TREO

TREO – total rare earth oxides including yttrium. In-situ - no geological losses applied. mt - million tonnes

On July 10, 2013, the Company announced a base case metallurgical flow sheet for the Songwe Hill rare earth project and that proof of concept test work on a bench scale had demonstrated that the flow sheet has potential to produce a high grade mixed rare earth carbonate or hydroxide product.

During the year ending December 31, 2013, the Company was focused on scoping metallurgical test work, environmental studies and commencement of the pre-feasibility study, in addition to regional exploration.

During the year ended December 31, 2014, the Company continued to progress the environmental and social impact studies, flow sheet optimization and metallurgical test work, process plant engineering design work, mining studies and other activities related to the pre-feasibility study. This culminated in the Company announcing the results of the pre-feasibility study on September 23, 2014. The pre-feasibility study was subsequently updated with the results announced on November 9, 2015.

The updated pre-feasibility Study (the Study) indicates a US$345 million after-tax net present value (NPV), using a 10% nominal discount rate, and 37% after-tax internal rate of return (IRR) for the Songwe Hill Rare Earth Project (the Project), based on rare earth oxide (REO) prices equivalent to a total rare earth basket price for Songwe Hill of US$59.8 per kg REO. The basket price reflects the selective removal of a large proportion of the cerium during the hydrometallurgical process, which enhances the value of the product mix.

Initial capital expenditure (Capex) of US$216m, including a contingency of US$20m, is among the lowest in the rare earth sector.

Cash operating costs average US$13.0 per kg REO for the first 5 years of production and US$16.4 per kg REO for the life of mine. The Study assumes an additional cost of US$10.0 per kg REO to account for the cost or discount associated with toll separation or the sale of a mixed chemical concentrate.

The Study is based on an open pit operation, using contract mining, with a mine life of 18 years commencing in 2018. There is potential to significantly expand production or the mine life and for a lower strip ratio given the large additional Inferred Resource and potential to expand the Mineral Resource.

This first phase of development envisages production of a high grade, cerium depleted, purified chemical concentrate for toll treatment or sale, with annual production of approximately 2,840 tonnes per year of REO in concentrate.

Based on the input parameters in the updated Study the Probable Mineral Reserve Estimate remains unchanged at 8.5 million tonnes grading 1.60% TREO using a cut-off grade of 1.0% TREO as reported in September 2014.

Mkango's strategy for Songwe is to further optimise the project with a view to maximising efficiency and reducing costs, thereby providing a strong platform both for entering into partnerships, marketing and off-take arrangements.

On July 26, 2016, Mkango announced that it has secured a two-year exclusive option and right to acquire, on commercially standard terms, the worldwide licence for a technology to produce high strength (up to 30%) hydrochloric acid ("HCL") from calcium chloride feed streams (the "Technology") using sulphuric acid, applicable in rare earths processing and other potential industrial applications. The Technology has been developed by Dr. Thomas Feldmann and Professor George Demopoulos of McGill University in Montreal, Canada.

Mkango's processing flowsheet for Songwe incorporates a HCL gangue leach step, producing calcium chloride in solution. The HCL will be regenerated using the calcium chloride feed stream, supplemented with additional calcium chloride, together with sulphuric acid produced from sulphur at a plant on-site. This means that the import of large quantities of liquid HCL will not be required, effectively being replaced by the import of solid sulphur and calcium chloride, therefore bringing significant potential cost and logistical benefits. The production of a gypsum by-product for sale in Malawi and elsewhere will also be investigated.

On August 9, 2016, Mkango announced the results of the airborne geophysical survey (the "Survey") covering approximately two thirds of its Phalombe licence. The Survey was part of a US$25 million World Bank funded nationwide airborne geophysical programme. The airborne radiometric survey highlights a number of exploration targets within the Phalombe licence. The Songwe Hill rare earths project was not covered by the Survey.

Apart from Songwe, there are two other identified vent systems in the Phalombe licence, Nkalonje and Namangale. In both cases, the Survey indicates strong thorium radiometric anomalies coincident with the vents, which, similar to Songwe, are expressed as steep hills rising above the surrounding plain. Thorium radiometrics are known as a highly effective tool for rare earths exploration and the Songwe Hill carbonatite is also characterized by a thorium radiometric anomaly, identified through previous geophysical surveys. Unlike Songwe Hill, the Nkalonje and Namangale vent systems do not feature large areas of outcropping carbonatite, the host rock for rare earths at Songwe Hill. However, both contain outcrops of carbonatite veins and dykes suggesting that there may be potential for a carbonatite body below surface.

A map showing the thorium radiometric anomalies superimposed on a topographic map, indicating local infrastructure, and the locations of Nkalonje and Namangale can be accessed via the following link: http://www.mkango.ca/i/maps/Results-of-Airborne-Radiometric-Survey-(Th)-on-Topo-Aug.jpg.

2. THAMBANI, MWANZA DISTRICT

Lancaster was granted an additional exploration license by the Malawi Minister of Natural Resources, Energy and Environment on September 10, 2010 in respect of an area, which was originally 468 sq km² in Thambani, Mwanza District, Malawi. Exploration has identified a number of areas with potential for uranium, zircon, corundum and niobium.

The Thambani License runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the Thambani License have been met. The license was renewed for a further two years on September 10, 2015 when the company requested a reduction in the license area to the current 136.9 sq km. The Company is continuing to meet the terms and conditions of the license and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress on its work program.

The exploration activities conducted during 2011 and 2012 included acquisition of Landsat7 and ASTER satellite imagery for the license area, systematic ground radiometric surveys to confirm and detail previously-known airborne anomalies, reconnaissance geological mapping and litho-geochemical sampling programs. The work has identified a number of potential uranium targets over the Thambani Massif, which is mainly composed of nepheline syenite gneiss, forming two prominent ridges known as Thambani East Ridge and West Ridge. Historical airborne radiometric surveys and ground radiometric survey programs carried out by Mkango have revealed two distinct uranium anomalies occurring along the two ridges: A strong uranium anomaly, measuring approximately 3 km by 1.5 km, occurs along the length of the Thambani East ridge with a north-south trend and a second uranium anomaly, measuring approximately 1.5 km by 0.4 km occurs on the West Ridge along the western contact of the nepheline syenite body with the eastern biotite-hornblende gneisses.

Initial results from follow up reconnaissance geochemical sampling conducted in 2013 returned locally anomalous uranium values, ranging up to 1,545 ppm U3O8, on both Thambani East and West ridges. During the year ended December 31, 2014, the Company continued to progress the geological exploration studies on the Thambani project area, data analysis and geological modeling.

Mkango completed a trenching program across the Thambani Massif primarily focused on two sites of historical uranium exploration, known as the Chikoleka and Little Ngona targets. An initial set of 9 trenches, selected on the basis of anomalous ground radiometric results, have been re-examined and geochemically sampled across profiles from soil/overburden into bedrock.

The first set of assay results of 142 soil and rock chip samples returned variably anomalous U, Nb and Ta values in most trenches, ranging up to 4.70 % U3O8, 3.25 % Nb2O5 in soil and up to 0.42 % U3O8, 0.78 % Nb2O5 and 972 ppm Ta2O5 in rock chips, notably higher than results from the 2013 reconnaissance surface geochemical sampling program. Results associated with the 10 best U3O8 assays are summarized in the table below.

Preliminary mineralogical studies carried out on six rock samples from the Little Ngona River and Chikoleka targets, using Scanning Electron Microscopy ("SEM") at the Natural History Museum (NHM) London, indicate that pyrochlore group minerals, mainly betafite, are the principal carriers of U, Nb and Ta for these samples.

Assays from the 10 highest- U_3O_8 samples from the Thambani trenching program

Trench No.	Profile	Sample No	From (m)	To (m)	Rock type	U308 ppm	Nb2O5 ppm	Ta2O5 ppm
C3	A	U3622	0.5	1	Soil	47,094	32,462	45
C3	A	U3623	1	1.5	Soil	1,057	735	59
T11	C	U3508	0.5	1	Decomposed Feldspathic	4,231	7,805	743
T11	C	U3509	1	1.5	Decomposed Feldspathic	2,539	6,619	911
T11	B	U3505	0.5	1	Decomposed Feldspathic	2,369	5,424	972
T15	A	U3554	1	1.5	Feldspathic rock	1,657	4,346	67
T15	A	U3553	0.5	1	Feldspathic rock	1,616	3,754	431
T15	E	U3565	0.5	1	Feldspathic rock	1,553	3,525	41
T14	D	U3549	1.5	2	Feldspathic rock	1,432	3,034	434
T19	C	U3604	1	1.5	Feldspathic rock	1,367	5,525	675

On July 12, 2016, Mkango announced results of a new airborne geophysical survey covering approximately two thirds of its Thambani licence. As per the Phalombe Licence, the survey was part of a US$25 million World Bank funded nationwide airborne geophysical programme flown at 250 metre spacing.
The new airborne survey confirms the presence of the previously-identified uranium radiometric anomaly referred to above along the western flank of the Thambani East ridge. The Little Ngona prospect, which previously yielded very encouraging uranium, niobium and tantalum values from geochemical sampling, is located at the northern end of this anomaly.

A further discrete uranium anomaly, orientated approximately east-west, is located to the south of this anomaly and has yet to be investigated in detail. The previously-identified uranium radiometric anomaly on the West Ridge and Chikoleka prospect in the north-west of the licence area, which also yielded very encouraging results from previous geochemical sampling, were not covered by this Survey.

A map showing the uranium radiometric anomalies superimposed on a topographic map, indicating local infrastructure, and a digital elevation model can be accessed via the following link:
http://www.mkango.ca/i/maps/Results_of_Airborne_radiometric_survey_on_topo_U_July.jpg

The airborne survey also highlighted a number of magnetic anomalies not previously identified, including a 2.3 km linear magnetic high anomaly along the Thambani East Ridge, a further 1 km by 0.5 km magnetic high anomaly located to the north along the Thambani East Ridge, a magnetic low anomaly approximately co-incident with the abovementioned east–west orientated uranium anomaly, and anomalies in a number of other locations. These areas require further investigation to determine the significance of the magnetic anomalies, and whether they are related to mineralisation or geological features.

The magnetic high anomalies provide an excellent focus for future exploration for niobium - tantalum, because columbite, a niobium - tantalum mineral, has previously been shown to be closely associated with magnetite and/or ilmenite at Thambani.

A map showing the magnetic anomalies superimposed on a topographic map, indicating local infrastructure, and a digital elevation model can be accessed via the following link:
http://www.mkango.ca/i/maps/Results_of_Airborne_magnetic_survey_on_topo_July_2016.jpg

PROPERTY AND EQUIPMENT

Property and equipment include computer and office equipment and a vehicle that was purchased in Malawi for use in the camp.

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2013	$ 10,020	$ (4,969)	$ 5,051
Less Depreciation	-	(1,245)	(1,245)
Balance at December 31, 2014	10,020	(6,214)	3,806
Disposal of asset	(9,732)	6,099	(3,633)
Additions	42,124	-	42,124
Less Depreciation	-	(5,306)	(5,306)
Balance at December 31, 2015	$ 42,412	$ (5,421)	$ 36,991
Less Depreciation	-	(5,280)	(5,280)
Balance at December 31, 2015	$ 42,412	$ (10,701)	$ 31,711

CURRENT LIABILITIES

Current liabilities include trade payables, accruals and amounts due to related parties. The Company owed $593,103 as at June 30, 2016. The current liabilities are comprised of the following:

Current Liabilities		June 30, 2016
AIM listing Costs		
Legal	$175,413	
Nominated Advisor/Corporate Finance	204,771	
Listing fee	19,628	
Other	13,053	412,865
Related party costs		79,609
General administrative costs		13,278
Legal fees[1]		42,207
Audit fees		23,824
Malawi project costs		21,320
Total current liabilities at June 30, 2016		$593,103

[1] Full balance cleared by issue of credit note subsequent to 30 June 2016 on 6 July 2016.

RELATED PARTY TRANSACTIONS

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. Generally the Company repays the disbursements made by Leo Mining on its behalf. During the six months ended June 30, 2016, the Company had incurred costs of $12,745 (2015 - $39,147) for administrative services. As of June 30, 2016 the Company has an outstanding payable to Leo Mining in the amount of $31,050 (2015 – $46,419). 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) Digby Wells Environmental ("Digby"), by virtue of a common director, is considered a related party. During the three months ended June 30, 2016, the Company has incurred costs of $3,243 (2015 – $1,814) for environmental services. As of June 30, 2016, there was an outstanding payable to Digby for $6,039 (2015 – 4,120).

c) The Company incurred costs of $135,911 (2015 - $148,002) for key management and director fees and related costs for the six months ended June 30, 2016. Included in current liabilities at June 30, 2016 was $42,520 (2015 - $104,049) due to related officers of the Company. Prior to May 12, 2016, the amounts owed were unsecured, due on demand and non-interest bearing. On May 12, 2016, the Corporation entered into arrangements with the CEO and President whereby a total of £173,620 (approximately $231,691), comprising deferred salaries for Executive Directors accrued since March 2015 will only become payable on the earlier of, a change of control, termination of the applicable management contract, or May 12, 2018. In terms of salaries that are unpaid going forward, these shall be accrued monthly but shall not be payable until the earlier of (a) a Change of Control; (b) any termination of the agreement; (c) 12 May 2018; or (d) such time that funds are reasonably available for such purpose from funds raised from whatever source (whether by debt, equity or by grant) in excess of the £1,000,000 raised in connection with admission to AIM.

EXPENDITURES

	For the six months ended June 30, 2016	2015	*Variance*
General and administrative			
Legal fees	2,777	13,748	***(10,971)***
Executive Director's salaries (unpaid and accrued)	118,833	104,245	***14,588***
Other salaries and consulting fees	37,990	85,441	***(47,451)***
Other general and administrative costs	4,273	26,183	***(21,910)***
Shareholder compliance & investor relations	22,626	17,459	***5,167***
Malawi office and camp expenses	14,934	43,095	***(28,161)***
Sub total - General and administrative	201,433	290,171	*(88,738)*
Malawi exploration expenditures			
Environmental studies	4,785	3,248	***1,537***
Sample costs	10,377	23,874	***(13,497)***
Ground rental fee	12,025	-	***12,025***
Consulting fees & salaries	9,225	73,440	***(64,216)***
DTI Grant refund	-	(104,728)	***104,728***
Technical review and analysis	22,270	28,952	***(6,682)***
Sub total - Mineral exploration	58,682	24,786	***33,895***
Other Expenses			
Stock option expense	173,703	110,755	***62,948***
Depreciation	5,280	234	***5,046***
Foreign exchange (gain) loss	195,780	(23,735)	***219,515***
Warrant revaluation	358,993	(1,320,410)	***1,679,403***
Total Expenses	**$993,869**	**$(918,199)**	***$1,912,068***

Total expenses increased by $1,912,068 from a profit of $918,199 to a loss of ($993,869) for the six months ended June 30, 2016 and 2015, respectively, primarily as a result of the following:

a) General and administrative expenses for the six months ended June 30, 2016 were $201,433 compared to $290,171 for the six months ended June 30, 2015.
Impact: $88,738 decrease in expense.

b) Mineral Exploration: Mineral exploration expenses were $58,682 for the six months ended June 30, 2016 compared to a $24,786 for the six months ended June 30, 2015.
Impact: ($33,895) increase in expenses.

c) Warrants: The warrant revaluation for the outstanding warrants resulted in a ($358,993) expense for the six months ended June 30, 2016. For the same period in 2015, the warrants revaluation was a gain of $1,320,410 expense.
Impact: ($1,679,403) increase in expense.

d) Stock Option Expense: The expense recognized for the six months ended June 30, 2016 was $173,703 compared to the $110,755 expense recognized at June 30, 2015. New stock options were granted June 15, 2015 are being expensed as they vest over a 24-month period with the majority of the expenses recognized during the first year of the vesting period.
Impact: ($62,948) increase in expense.

e) Foreign exchange: The foreign exchange for the six months ended June 30, 2016 was a loss of ($195,780) compared to a gain of $23,735 for the six months ended June 30, 2015.

Impact: ($219,515) increase in expenses.

f) Depreciation: The depreciation for the six months ended June 30, 2016 was an expense of ($5,280) compared to an expense of $234 for the six months ended June 30, 2015.
Impact: $5,046 increase in expense.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, the Company had a working capital surplus of $559,440 (December 31, 2015 – deficit ($159,103)).

The Company completed its Qualifying Transaction on December 20, 2010 and raised $5,631,076, net of share issue costs. The Company raised a further $2,114,650, net of share issue costs, as of December 31, 2013 through a second equity issue. The Company raised a further $1,806,075, net of share issue costs, through a third equity issue, which closed in two tranches on March 24, 2014 and April 3, 2014. The Company raised a further $785,896, net of share issue costs, through an equity issue, which closed July 31, 2015 and on October 20, 2015, the Company raised $194,267, net of share issue costs, through an equity issue. On June 15, 2016 the Company commenced trading on AIM. On June 15, 2016 the Company raised $845,011, net of share issue costs through a placement on AIM.

At June 30, 2016, the Company had a cash balance of $1,121,239.

The Company is an exploration company and is therefore currently not conducting mining operations, and, as is normal market practice for an exploration company, has relied on equity private placements to fund its activities. Over the course of 5 years, while listed on the TSX Venture Exchange, the Company raised gross proceeds of approximately C$13 million of equity from institutional and private investors in four private placements to advance its projects under what were very difficult market conditions in the Canadian market and minerals sector and in the rare earths and uranium sectors globally. Between January 2011, when Mkango commenced trading on the TSX Venture Exchange, and June 2016, the benchmark S&P TSX Venture Index dropped by approximately 70% and the rare earths sector was similarly if not worse affected.

The use of proceeds for the equity raised from these placements include geophysics, geological mapping, geochemical sampling, diamond drilling (6,850 metres), a maiden resource estimate, extensive mineralogical studies and metallurgical test work, environmental, social and health impact studies and a pre-feasibility study for the Songwe Hill rare earths project and various earlier stage exploration activities for the Thambani uranium project. Full details of work completed over the last 6 years are available on our website and on SEDAR.

In 2015, the company made the decision to start the process to dual list on the AIM market of the London Stock Exchange (“AIM”). On June 15, 2016 the Company commenced trading on AIM. The reasons for listing on AIM were as follows:

- The Company considers that the dual TSX-V and AIM listing provides a better platform to advance the projects for the benefit of all shareholders and stakeholders in terms of the ability to add value to the assets and close the value gap versus its listed peer group, to attract partners and new investment to further broaden the shareholder base, to increase trading volumes and liquidity, and to increase the profile of the Company globally
- The strong affinity and historical links between Malawi and the UK, and the strong historical familiarity between the London market and Africa
- A significant proportion of the Company’s shareholders were based in the UK including the majority of those who participated in the Company’s 2015 private placement and who were also supportive of a listing on AIM
- Providing further access to UK and European based retail and institutional investors who may be able to assist the Company fund its growth and development
- Provide an opportunity to increase the liquidity of the Common Shares particularly in respect of investors who wish to trade in Common Shares on AIM but do not wish to,or are unable to invest in Common Shares listed on the TSX-V
- Raising further the profile and awareness of the Company with the investing community.

Mkango Resources is the only IPO in the mining sector to have been completed this year on AIM to date and was the first AIM IPO in the mining sector to have taken place for more than a year.

At the time of its AIM listing, the Company raised gross proceeds of £1 million. The Company forecast that the net proceeds of the fund raising, totaling £545,000, would fund the working capital requirements of the Company for 18 months from June 15, 2016.

As at the current date, the Company's expenditure remains within budget.

The budget does not include salaries or payments for any of the Executive Directors going forward. Salaries are deferred and included in long term liabilities, and will only be paid in the future subject to various conditions as set out in the section on Related Party Transactions and in the Company's AIM admission document. No fees are payable to Non-Executive Directors. The Directors are currently incentivized through existing direct and indirect shareholdings, and through the Company's share option scheme.

The budget does not include drilling on either projects. Based on the pre-feasibility study announced in November 2015, the Probable Mineral Reserve estimate for the Songwe Hill rare earths project is already sufficient for 18 year's mine life. Nevertheless, there is potential to significantly expand production or the mine life and for a lower strip ratio given the large additional Inferred Resource and potential to expand the Mineral Resource in the future.

The budget is focused on optimisation of Songwe with a view to maximising efficiency and reducing costs, thereby providing an enhanced platform for entering into partnerships, marketing and off-take arrangements, research and development in collaboration with a number of major research programs, environmental baseline studies, corporate social responsibility programs, further data interpretation and modeling, and costs of maintaining the licenses.

As expected, the costs of the AIM listing, totaling approximately £455,000, accounted for a significant portion of the use of proceeds of the £1 million as outlined in the Company's AIM admission document. The balance of AIM listing costs unpaid as of 30 June 2016 and as detailed in the Current Liabilities section were paid in the quarter ending September 2016. It was and remains the Company's view that the benefits of the dual listing outweigh the costs of the AIM listing process. The Company's rationale for listing on AIM is discussed above.

The Company believes that prices for rare earths and uranium are at a cyclical low, and that the outlook for certain of the rare earths, in particular those used in high strength permanent magnets and which account for over 80% of Mkango's potential production value, and for uranium are therefore positive. Having progressed the Songwe Hill rare earth project to an advanced stage, i.e. a pre-feasibility study, one of the few companies in the rare earths sector to have done so, the Company is now focused on positioning itself for when these markets recover and in parallel to attract a joint venture, financial or strategic partner to fund the next stages of development for the assets, being the bankable feasibility study for Songwe and further exploration for Thambani.

Since the Company does not expect to generate any revenue in the near future, and in the absence of a joint venture or partnership to further fund exploration and development of the assets, it must continue to rely upon existing cash resources, potential research funding or grants and the sale of its equity and/or debt securities to fund its operations. There can be no assurance that such financing will continue to be available to the Company in the amount required at any particular time or for any period or, if available, it can be obtained on terms satisfactory to the Company. The circumstances that could affect the company's ability to secure such funding that are reasonably likely to occur are, without limitation include the state of the capital markets and the prevailing market prices for commodities, in particular the prevailing market prices for REE. The outlook in relation to these factors could change at any time and negatively affect the Company's operations and business. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events, which are reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

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 on January 20, 2015 was renewed for an additional two years. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate MWK706):

Exploration commitments, 2 years	$	212,464
Ground rent, 2 years		24,054
Total commitment, 2 years	$	236,518

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 km2 in Thambani, Mwanza District, Malawi. The license was issued by the Malawi Government on a three-year basis, originally, and was 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 sq km. The future spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate MWK703):

Exploration commitments, 2 years	$	35,410
Ground rent, 2 years		3,878
Total commitment, 2 years	$	39,288

The Company is continuing to meet the terms and conditions of its two 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.

ISSUED AND OUTSTANDING SHARE INFORMATION

As at the date of this report, the Company has 71,055,348 Common Shares and 46,033,808 warrants issued. The Company has 7,000,000 stock options issued.

OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any off balance sheet arrangements or transactions.

ACCOUNTING POLICIES AND ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Details outlining Mkango's accounting policies are contained in the notes to the consolidated interim financial statements for the six months ended June 30, 2016.

BUSINESS RISKS

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Mkango's operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

The Company is presently pursuing direct investments in international mining projects. There is no assurance that exploration prospects will be granted in foreign jurisdictions where the Company is making applications, nor is there assurance the exploration efforts will be successful. If the Company is successful in obtaining exploration prospects in foreign jurisdictions, additional capital will be required to execute the exploration programs.

Rare earth element and related mineralogy exploration, development, production and marketing operations inherently have a number of business risks and uncertainties, including the uncertainty of finding new reserves, the volatility of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations.

The Company manages these risks by contracting competent professional staff, following sound operating practices and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward. The Company conducts its operations in a manner consistent with environmental regulations as stipulated applicable local legislation. Mkango is committed to meeting its responsibilities to protect the environment wherever it may operate and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment. Mkango's operations are subject to the risks normally associated with the mining industry. The Company is committed to respecting the safety of its personnel, the environment and the communities where it has operations.

The mining industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of rare earth elements could result in a significant decrease in the Company's future anticipated revenues. The mining industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production are daily risks in the mining industry.

FINANCIAL INVESTMENTS AND RISK MANAGEMENT

All financial instruments are initially recognized at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), held for- trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair value recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents are designated as FVTPL and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and due to related parties are designated as other financial liabilities.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related party approximates the carrying value. The Company does not hold any other financial instruments. The main financial risks affecting the Company are discussed below:

Fair values
The Company's cash and cash equivalents and accounts receivable and current liabilities are approximated by their carrying values due to the short-term nature of the items.

Concentration risk
The majority of the Company's cash and cash equivalents are held by one major International bank. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and bear minimal risk.

Foreign currency rate 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 British Sterling, the United States dollar, South African Rand and the local currency in Malawi (Kwacha). The Company raises its equity in British Sterling and the Canadian dollar and then purchases Canadian dollar, British Sterling, United States dollar, South African Rand and Malawi Kwacha funds to settle liabilities, as required.

As at June 30, 2016 and 2015, the following cash balances were held by the Company:

	2016	2015
Cash and cash equivalents:		
Canadian dollars	$ 5,674	$ 61,877
United States dollars	537	826
British Sterling and Euros	1,114,843	-
Malawi Kwacha	185	-
Warrants – derivative financial instruments	(2,615,490)	(293,603)
	(1,494,251)	(230,900)

A 5% reduction in the value of British Sterling in comparison to the United States dollar will have an approximately $56,062 effect on the Company's cash balance. A 5% change in the value of the Malawi Kwacha in relationship to the United States dollar would not cause a material change in net income (loss).

Liquidity Risk

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

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- 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 issues or obtain project debt financing.

Capital Risk

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in mining activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure. The Company has no externally imposed capital requirements. The Company currently depends on equity financings to remain solvent. Cash from these financings may or may not be available depending on market or other conditions.

DIRECTORS AND OFFICERS AS AT JUNE 30, 2016

William Dawes, Director and Chief Executive Officer
Alexander Lemon, Director and President
Derek Linfield, Chairman of the Board of Directors
David Berg, Audit Committee Chairman, Director and Corporate Secretary
Adrian Reynolds, Director (Audit Committee)
Eugene Chen, Director (Audit Committee)
Sandra Beaulieu, Chief Financial Officer