



Consolidated Interim Financial Statements of

**MKANGO RESOURCES LTD.**

For the three months ended March 31, 2016 and 2015

**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 consolidated interim financial statements for the three months ended March 31, 2016 and 2015.**

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

As at	Notes	March 31, 2016	December 31, 2015
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$87,774	\$208,161
Accounts receivable		2,310	2,760
Prepaid expenses		8,483	5,023
Total currents assets		98,567	215,944
Property and equipment	5	34,351	36,991
Total assets		132,918	252,935
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		179,352	76,182
Due to related party	6	274,275	298,865
Total current liabilities		453,627	375,047
Long term			
Warrants - derivative financial instruments	7(b)	697,061	609,700
Total liabilities		1,150,688	984,747
<b>EQUITY (DEFICIENCY)</b>			
Share capital	7(a)	7,399,685	7,399,685
Contributed surplus		2,748,545	2,739,847
Accumulated other comprehensive loss		(123,515)	65,029
Deficit		(11,042,485)	(10,936,373)
Total deficit		(1,017,770)	(731,812)
Total liabilities and deficit		\$132,918	\$252,935
Going concern	2		
Commitments	9		
Subsequent events	11		

Approved on behalf of the Board:

(signed) "*William Dawes*"

William Dawes, CEO and Director

(signed) "*David Berg*"

David Berg, Director

Refer to accompanying notes to the consolidated interim financial statements.

**MKANGO RESOURCES LTD.**  
**Consolidated Interim Statements of Comprehensive Income (Loss)**  
**Reported in US dollars**

	Notes	March 31,	
		2016	2015
<b>Expenses</b>			
General and administrative		\$175,846	\$180,993
Mineral exploration expenditures		27,679	(21,530)
Depreciation	5	2,640	6
Share-based payments	7(c)	8,698	63,573
		<u>214,863</u>	<u>223,042</u>
<b>Other items</b>			
Interest income		(2)	(5)
Unrealized gain on revaluation of warrants	7(b)	83,132	15,775
Loss on sale of asset		-	220
Foreign exchange (gain) loss		(3,337)	14,967
<b>Net income (loss)</b>		<u>\$(294,656)</u>	<u>\$(253,999)</u>
<b>Other comprehensive income (loss)</b>			
Items that may be reclassified subsequently to net income (loss)			
Exchange difference on translating foreign operations		188,544	(15,570)
<b>Total comprehensive income (loss)</b>		<u>\$(106,112)</u>	<u>\$(269,569)</u>
<b>Net loss per share - basic and diluted</b>			
		<u>\$(0.00)</u>	<u>\$(0.00)</u>
<b>Weighted average shares outstanding basic and diluted</b>			
		<u>121,256,956</u>	<u>73,296,956</u>

Refer to accompanying notes to the consolidated interim financial statements.

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

	Notes	March 31,	
		2016	2015
<b>Cash flow used by operating activities</b>			
Net income (loss) for the period		\$(294,656)	\$(253,999)
Items not affecting cash:			
Share based payments	7(c)	8,698	63,573
Unrealized gain on revaluation of warrants	7(b)	83,132	15,775
Depreciation	5	2,640	6
Unrealized foreign exchange gain		(4,210)	9,615
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		(3,010)	8,102
Accounts payable, accrued liabilities and due to related party		78,580	49,396
Cash flow used by operating activities		(128,826)	(107,532)
<b>Cash flow provided by investing activities</b>			
Disposal of asset		-	2,811
Cash flow provided by investing activities		-	2,811
Effect of exchange rate changes on cash		8,439	6,778
<b>Change in cash and cash equivalents</b>		(120,387)	(97,943)
Cash and cash equivalents at the beginning of the period		208,161	161,009
<b>Cash and cash equivalents at the end of the period</b>		\$87,774	\$63,066

Refer to accompanying notes to the consolidated interim financial statements.

**MKANGO RESOURCES LTD.**  
**Consolidated Interim Statements of Changes in Equity (Deficit)**  
**Reported in US dollars**

	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at December 31, 2014	\$7,173,622	\$2,555,367	\$53,856	\$(11,466,667)	\$(1,683,822)
Share based payments		63,573			63,573
Total comprehensive loss			15,570	(253,999)	(238,429)
Balance at March 31, 2015	\$7,173,622	\$2,618,940	\$69,426	\$(11,720,666)	\$(1,858,678)
Common shares issued	863,824				863,824
Common shares issued - agent fee	56,899				56,899
Share issue costs	(134,827)				(134,827)
Warrants issued - agent fee	(76,038)	76,038			-
Warrant valuation	(483,795)				(483,795)
Share based payments		44,869			44,869
Total comprehensive loss			(4,397)	784,293	779,896
Balance at December 31, 2015	\$7,399,685	\$2,739,847	\$65,029	\$(10,936,373)	\$(731,812)
Share based payments		8,698			8,698
Total comprehensive loss			(188,544)	(106,112)	(294,656)
Balance at March 31, 2016	\$7,399,685	\$2,748,545	\$(123,515)	\$(11,042,485)	\$(1,017,770)

Refer to accompanying notes to the consolidated interim financial statements.

# **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

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## **1. GENERAL INFORMATION**

The principal business of Mkango Resources Ltd (“Mkango”) is rare earth element and associated minerals exploration and development with two properties in the Republic of Malawi, Africa, including the Phalombe exploration license (“Phalombe License”) and the Thambani exploration license (“Thambani 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 259 Windermere Road SW, Calgary, Alberta Canada, T3C 3L2.

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’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.

On May 19, 2011, a third entity, Lancaster Exploration Limited (“Lancaster Malawi”), was incorporated under the laws of Blantyre, Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI.

Mkango and its wholly owned subsidiaries are collectively referred to as the “Company” in these consolidated interim financial statements.

The consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on May 25, 2016.

## **2. 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 deficiency of \$355,060 (2015 - \$159,103), negative cash flows from operating activities and has a deficit of \$11,042,485 (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 (Note 9). These factors indicate material uncertainties, which may cast significant doubt on the Company’s ability to continue as a going concern. The Company is in the process of developing its mineral interests.

The operations of the Company for the next 12 months will be partially funded by cash remaining from a non-brokered private placement, which closed in two tranches on July 31, 2015 and October 20, 2015 (Note 7) and by future equity placements including a planned equity placement in June 2016.

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.

## **3. BASIS OF PRESENTATION**

### **(a) Statement of compliance**

These consolidated interim 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”), in effect on January 1, 2016.

### **(b) Basis of presentation and measurement**

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

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

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

#### **(c) Functional and presentation currency**

The consolidated interim financial statements are presented in US dollars, which is the functional currency of Mkango and its Lancaster BVI subsidiary. Effective January 1, 2014, the functional currency of Lancaster Malawi changed from the US dollar to the local currency, the Kwacha, based upon changes in economic facts and circumstances.

#### **(d) Principles of consolidation**

The consolidated interim financial statements of the Company include the accounts of the Company and its two wholly owned subsidiaries. All intercompany balances and transactions are eliminated upon consolidation.

#### **(e) Use of estimates and judgments**

The preparation of the consolidated interim financial statements in conformity with IFRS 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 or probable reserves assigned are classified as exploration and evaluation expenses and are recognized in the statement of comprehensive income (loss). The decision to transfer assets from exploration and evaluation to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As of the date of this report, management has determined that the Company has not yet reached the development and production stage.

##### **(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 7(b))**

The Company uses an 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 8)**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

### 3. BASIS OF PRESENTATION (continued)

#### (f) New IFRS pronouncements not yet implemented

The following IFRS pronouncements have been issued by the IASB as at March 31, 2016 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 interim financial statements.

##### (i) IFRS 9 financial instruments (New and Amendment)

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

##### (ii) IFRS 15 revenue from contracts with customers (New)

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

##### (iii) IFRS 16 leases (New)

IFRS 16 was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. Management anticipates that this standard will be adopted in the Company's consolidated interim financial statements for the year beginning January 1, 2019 and has not yet considered the potential impact of the adoption of IFRS 16.

### 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2015.

### 5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
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
Depreciation	-	(5,306)	(5,306)
Balance at December 31, 2015	\$ 42,412	\$ (5,421)	\$ 36,991
Depreciation	-	(2,640)	(2,640)
Balance at March 31, 2016	\$ 42,412	\$ (8,061)	\$ 34,351



## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

### 6. 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 three months ended March 31, 2016, the Company had incurred costs of \$9,194 (2015 - \$36,007) for administrative services. As of March 31, 2016 the Company has an outstanding payable to Leo Mining in the amount of \$34,708 (2015 - \$43,279). 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 March 31, 2016, the Company has incurred costs of \$336 (2015 - nil) for environmental services. As of March 31, 2016, there was an outstanding payable to Digby for \$3,133 (2015 - nil).
- c) The Company incurred costs of \$66,274 (2015 - \$66,938) for key management and director fees and related costs for the three months ended March 31, 2016. Included in due to related parties at March 31, 2016, was \$236,434 (2015 - \$66,938) due to a related parties and 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 management whereby a total of £145,620 (approximately C\$272,391), 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.

### 7. 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, in its discretion, declares from available funds.

	Ref	Number	Amount
Closing balance December 31, 2013		50,564,603	\$7,370,698
Brokered offering - March 24, 2014	(i)	16,262,603	1,462,748
Warrants valuation		-	(1,365,728)
Agent warrants		-	(59,363)
Agent shares		24,500	2,184
Brokered offering - April 3, 2014	(ii)	6,445,250	583,533
Warrants valuation		-	(550,193)
Agent warrants		-	(27,867)
Share issue costs	(iii)	-	(242,390)
Closing balance December 31, 2014		73,296,956	\$7,173,622
Brokered offering - July 31, 2015	(iv)	30,000,000	578,516
Warrants valuation		-	(318,464)
Agent warrants		-	(52,708)
Agent shares		1,680,000	32,372
Brokered offering - October 20, 2015	(v)	15,000,000	285,308
Warrants valuation		-	(165,331)
Agent warrants		-	(23,330)
Agent shares		1,280,000	24,527
Share issue costs	(vi)	-	(134,827)
Closing balance December 31, 2015 and March 31, 2016		121,256,956	\$7,399,685

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

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### **7. SHARE CAPITAL (continued)**

- (i) On March 24, 2014, the Company issued 16,262,603 units at C\$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C\$1,626,260 (US \$1,462,748) gross proceeds of the non-brokered offering were allocated between common shares C\$94,323 (US\$97,020) and warrants C\$1,531,937 (US \$1,365,728) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.20 until March 24, 2019. The Corporation issued to the Agent 24,500 Units valued at US \$2,184 and 880,782 warrants valued at US \$59,363. Each whole warrant entitles the holder to acquire one common share for C\$0.10 until March 24, 2016.
- (ii) On April 3, 2014, the Company issued 6,445,250 units at C\$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C\$644,525 (US\$583,533) gross proceeds of the non-brokered offering were allocated between common shares C\$36,791 (US\$33,340) and warrants C\$607,734 (US\$550,193) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.20 until April 3, 2019. The Corporation issued 406,770 agents warrants valued at US\$27,867. Each whole warrant entitles the agent to acquire one common share for C\$0.10 until April 3, 2016.
- (iii) Share issue costs of US \$242,390 were paid for agent and legal services and regulatory exchange filing fees.
- (iv) On July 31, 2015, the Company issued 30,000,000 units at C\$0.025 per unit pursuant to the non-brokered offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C\$750,000 (US \$578,516) gross proceeds of the non-brokered offering were allocated between common shares C\$334,500 (US\$260,052) and warrants C\$415,500 (US \$318,464) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.05 until July 31, 2018. The Corporation issued to the Agents 1,680,000 Units, consisting of 1 common share and one-half common share purchase warrant of Mkango, valued at US \$32,372 and 1,820,000 warrants valued at US \$52,708. Each whole warrant entitles the holder to acquire one common share for C\$0.05 until July 31, 2016.
- (v) On October 20, 2015, the Company issued 15,000,000 units at C\$0.025 per unit pursuant to the non-brokered offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C\$375,000 (US \$285,308) gross proceeds of the non-brokered offering were allocated between common shares C\$160,500 (US\$119,977) and warrants C\$214,500 (US \$165,331) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.05 until October 19, 2018. The Corporation issued to the Agents 280,000 Units, consisting of one common share and one-half common share purchase warrant of Mkango, and 1,000,000 common shares valued at US \$24,527 and 980,000 warrants valued at US \$23,330. Each whole warrant entitles the holder to acquire one common share for C\$0.05 until October 19, 2016.
- (vi) Share issue costs of US \$134,827 were paid for agent and legal services and regulatory exchange filing fees.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

### 7. SHARE CAPITAL (continued)

#### b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Canadian dollars 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 (CDN\$)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2013	\$ -	-	6,560,874	\$ 18,115
Warrants expired – March 1, 2013	0.35	-	(2,142,858)	(4,860)
Warrants expired – April 11, 2013	0.35	-	(4,418,016)	(13,255)
Warrants issued – March 24, 2014	0.20	4.25	16,262,603	1,365,728
Warrants issued – April 3, 2014	0.20	4.25	6,445,250	550,193
Foreign exchange effect	-	-	-	(63,081)
Fair value change at December 31, 2014	-	-	-	(238,827)
Balance at December 31, 2014	\$ 0.20	4.25	22,707,853	\$ 1,614,013
Warrants issued – July 31, 2015	0.05	2.58	15,000,000	318,464
Warrants issued – October 20, 2015	0.05	2.80	7,500,000	165,331
Foreign exchange effect	-	-	-	(197,208)
Fair value change at December 31, 2015	-	-	-	(1,290,900)
Balance at December 31, 2015	\$ 0.13	2.95	45,207,853	\$ 609,700
Foreign exchange effect	-	-	-	4,229
Fair value change at March 31, 2016	-	-	-	83,132
Balance at March 31, 2016	\$ 0.13	2.95	45,207,853	\$ 697,061

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:

	July 31, 2015	March 31, 2016 <i>Revaluation</i>	October 20, 2015	March 31, 2016 <i>Revaluation</i>
Risk free interest rate	0.50%	0.53 %	0.50%	0.53 %
Expected volatility	217%	449%	241%	449%
Share price	\$0.02	\$0.02	\$0.02	\$0.02
Foreign exchange rate	1.3047	1.2971	1.2974	1.2971
Remaining life	3.23	2.33	3.25	2.55
	March 24, 2014	March 31, 2016 <i>Revaluation</i>	April 3, 2014	March 31, 2016 <i>Revaluation</i>
Risk free interest rate	1.69%	0.53%	1.67%	0.53%
Expected volatility	144%	449%	143%	449%
Share price	\$0.11	\$0.02	\$0.11	\$0.02
Foreign exchange rate	1.1217	1.2971	1.1035	1.2971
Remaining life	5.00	2.98	5.00	3.01

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

### 7. SHARE CAPITAL (continued)

#### 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 income (loss) for the three months ended March 31, 2016 was \$8,698 (2015 - \$63,573). The corresponding amount has been recognized in contributed surplus. The options vest over a term of 24 months.

The following tables provide a summary of the status of the Company's stock option plan:

Year ended December 31	2016		2015	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	6,310,000	\$ 0.27	6,910,000	\$ 0.26
Cancelled	-	-	(412,500)	(0.18)
Forfeited	-	-	(187,500)	(0.16)
Outstanding, end of year	6,310,000	\$ 0.27	6,310,000	\$ 0.27

Grant date	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)
Granted - January 17, 2011	January 16, 2021	1,700,000	1,700,000	\$0.50	4.8
Granted - June 29, 2011	June 28, 2021	330,000	330,000	\$0.55	5.3
Granted - September 25, 2013	September 24, 2023	1,480,000	1,480,000	\$0.20	7.5
Granted - May 30, 2014	May 29, 2024	2,800,000	2,100,000	\$0.13	8.2
Balance at March 31, 2016		6,310,000	5,610,000	\$0.27	7.0

No options were issued during the three months ended March 31, 2016.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

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### 8. FINANCIAL INSTRUMENTS

#### Determination of fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the statement of comprehensive income (loss). Those categories are fair value through profit or loss; loans and receivables; and, for most liabilities, other financial liabilities.

In establishing fair value, the Company used 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, accounts payable and accrued liabilities and due to related parties approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value, see Note 7(b).

#### 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, and the local currency in Malawi (Kwacha). The Company raises its equity in the Canadian dollar and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. The Company's exposure to foreign currency risk as at March 31, 2016 and 2015 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	As at March 31,	
	2016	2015
Cash and cash equivalents:		
Canadian dollars	\$ 81,716	\$ 2,834
United States dollars	2,565	-
Malawi Kwacha	3,493	60,232
Warrants – derivative financial instruments	(697,061)	(1,629,788)
	<u>\$ (609,286)</u>	<u>\$ (1,566,722)</u>

A 5% reduction in the value of the Canadian dollar in comparison to the United States dollar would cause a change in income (loss) of approximately \$4,100. 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).

#### 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;
- b) The Company will be forced to sell 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.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Reported in US dollars unless indicated otherwise)

### 8. FINANCIAL INSTRUMENTS (continued)

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 project debt 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 December 31, 2015:

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	\$ 179,352	\$ 179,352
Due to related parties	\$ 274,275	\$ 274,275

#### Credit risk

The Company's principal financial assets are cash and cash equivalents. 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. Accounts receivable consists of GST and interest on investments with a credible financial institution.

### 9. 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 MWK677):

Exploration commitments, 2 years	\$ 221,566
Ground rent, 2 years	25,084
<b>Total commitment, 2 years</b>	<b>\$ 246,650</b>

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 km<sup>2</sup> 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 was renegotiated from 250,000,000 to 25,000,000 Kwacha over two years (foreign exchange rate MWK677):

Exploration commitments, 2 years	\$ 36,928
Ground rent, 2 years	4,044
<b>Total commitment, 2 years</b>	<b>\$ 40,972</b>

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.

## **MKANGO RESOURCES LTD.**

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### **10. CAPITAL MANAGEMENT**

The Company's total capital consists of shareholders' equity (deficiency) and amounts to (\$1,017,770) as at March 31, 2016. The operations of the Company for the next 12 months will be partially funded by cash remaining from a non-brokered private placement, which closed in two tranches on July 31, 2015 and October 20, 2015 (Note 7) and by future equity placements.

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.

### **11. SUBSEQUENT EVENT**

1. On May 12, 2016, the Corporation entered into arrangements with management of the Corporation whereby a total of £145,620 (approximately C\$272,391), comprising deferred salaries for Executive Directors accrued since March 2015 and included in short term liabilities, will only become payable on the earlier of, a change of control, termination of the applicable management contract, or May 12, 2018.
2. On May 18, 2016, the Corporation announced that it proposes to raise gross proceeds of £1 million (approximately C\$1.87 million) (the "Placing") in conjunction with admission to the AIM market ("AIM") of the London Stock Exchange. In conjunction with and subject to successful completion of both the Placing and admission to AIM, the Corporation proposes to undertake a three to one consolidation (the "Consolidation") on the basis of three (3) pre-Consolidation shares for one (1) post-Consolidation share. The Consolidation would have the effect of reducing the number of shares outstanding prior to the Placing from 121,256,956 to 40,418,985.

Under the terms of the Placing, the Corporation will issue 30,303,030 post-Consolidation units (the "Units") at a post-Consolidation price of 3.3 pence (C\$0.06) per Unit.

Each Unit will consist of one common share of the Corporation (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each whole Warrant will entitle the holder to acquire one Common Share at a price of 6.6 pence for a period of 3 years following the closing date of the Placing.

If the closing price of the Common Shares on AIM exceeds 19.8 pence (C\$0.37) for at least 20 consecutive trading days following the date that is four months after the date of issuance of the Warrants, the Corporation shall have the right, exercisable within three business days thereafter, to accelerate the expiry of the Warrants to 20 business days after the issuance of a news release announcing the new expiry date.

3. On May 24, 2016, the Corporation announced that over £1 million (approximately C\$1.9 million) had been committed to the Placing discussed above in point number two. The successful closing of the Placing is contingent on admission to the AIM market of the London Stock Exchange by June 30, 2016.