



Consolidated Interim Financial Statements of

MKANGO RESOURCES LTD.

For the three months ended March 31, 2015 and 2014

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, 2015 and 2014.

MKANGO RESOURCES LTD.
Consolidated Interim Statements of Financial Position
Reported in US dollars
(Unaudited)

As at	Notes	March 31, 2015	December 31, 2014
ASSETS			
Current			
Cash and cash equivalents		\$ 63,066	\$ 161,009
Accounts receivable		4,611	7,386
Prepaid expenses		8,150	13,477
Total currents assets		75,827	181,872
Property and equipment	5	166	3,806
Total assets		75,993	185,678
LIABILITIES			
Current			
Accounts payable and accrued liabilities		91,734	81,153
Due to related party	6	213,149	174,334
Total current liabilities		304,883	255,487
Long term			
Warrants - derivative financial instruments	7(b)	1,629,788	1,614,013
Total liabilities		1,934,671	1,869,500
EQUITY (DEFICIENCY)			
Share capital	7(a)	7,173,622	7,173,622
Contributed surplus		2,618,940	2,555,367
Accumulated other comprehensive income		69,426	53,856
Deficit		(11,720,666)	(11,466,667)
Total deficit		(1,858,678)	(1,683,822)
Total liabilities and deficit		\$ 75,993	\$ 185,678
Going concern	2		
Commitments	9		

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 Loss
Reported in US dollars
(Unaudited)

		March 31,	
	Notes	2015	2014
Expenses			
General and administrative		\$ 180,993	\$ 243,991
Mineral exploration expenditures		(21,530)	153,583
Depreciation	5	6	311
Share based payments	7(c)	63,573	73,009
		223,042	470,894
Other items			
Interest income		(5)	-
Unrealized (gain) loss on revaluation of warrants	7(b)	15,775	(805)
Loss on sale of asset		220	-
Foreign exchange gain		14,967	(35,476)
Net loss		\$ (253,999)	\$ (434,613)
Other comprehensive income			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		(15,570)	-
Total comprehensive loss		\$ (269,569)	\$ (434,613)
Net loss per share - basic and diluted		\$ (0.00)	\$ (0.01)
Weighted average shares outstanding basic and diluted		73,296,956	51,829,472

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD.
Consolidated Interim Statements of Cash Flows
Reported in US dollars
(Unaudited)

		March 31,	
	Notes	2015	2014
Cash flow used by operating activities			
Net loss for the period		\$ (253,999)	\$ (434,613)
Items not affecting cash:			
Share based payments	7(c)	63,573	73,009
Unrealized gain on revaluation of warrants	7(b)	15,775	(805)
Depreciation	5	6	311
Unrealized foreign exchange (gain) loss		9,615	-
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		8,102	50,830
Accounts payable, accrued liabilities and due to related party		49,396	23,523
Cash used by operating activities		(107,532)	(287,744)
Cash flow from financing activities			
Issue of share capital, net of issue costs		-	1,277,032
Subscriptions receivable		-	4,872
Cash provided by financing activities		-	1,281,904
Cash flow from investing activities			
Disposal of asset		2,811	-
Cash provided by investing activities		2,811	-
Effect of exchange rate changes on cash		6,778	(1,212)
Change in cash and cash equivalents		(97,943)	992,948
Cash and cash equivalents at the beginning of the period		161,009	437,378
Cash reclassified to restricted cash		-	3,171
Cash and cash equivalents at the end of the period		\$ 63,066	\$ 1,433,497

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
(Unaudited)

	Share capital	Subscriptions received	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at December 31, 2013	\$7,370,698		\$2,080,195	\$ -	\$(9,153,573)	\$297,320
Common shares issued	1,464,933	-	-	-	-	1,464,933
Subscriptions received	-	4,872	-	-	-	4,872
Share issue costs	(185,717)	-	-	-	-	(185,717)
Warrant valuation	(1,425,091)	-	59,368	-	-	(1,365,723)
Share based payments	-	-	73,009	-	-	73,009
Total comprehensive loss	-	-	-	-	(434,613)	(434,613)
Balance at March 31, 2014	\$7,224,823	\$4,872	\$2,212,572	\$ -	\$(9,588,186)	\$(145,919)
Common shares issued	581,348	-	-	-	-	581,348
Subscriptions received	-	(4,872)	-	-	-	(4,872)
Common shares issued - agent fee	2,184	-	-	-	-	2,184
Share issue costs	(143,903)	-	27,862	-	-	(116,041)
Expired warrants	-	-	18,115	-	-	18,115
Warrant valuation	(490,830)	-	-	-	-	(490,830)
Share based payments	-	-	296,818	-	-	296,818
Total comprehensive loss	-	-	-	53,856	(1,878,481)	(1,824,625)
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)

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, 2015 and 2014
(Reported in US dollars unless indicated otherwise)
(Unaudited)

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd (the “Company” or “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 the Company were amended to change the name of the Company 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.

The consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on May 25, 2015.

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 incurred a net loss of \$253,999 for the three months ended March 31, 2015 (March 31, 2014 - \$434,613) and has a deficit of \$11,720,666 (December 31, 2014 - \$11,466,667). 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 acquiring, exploring and developing its mineral interests.

Management has significantly scaled down its administrative and exploration expenditures for 2015 and as such believes that the funds available combined with future equity placements will generate sufficient cash flow to maintain the Company’s ability to meet its short and medium term objectives and milestones. The Company is currently funding its operations with equity raised in a non-brokered private placement (“Financing”), which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 7).

In addition to the equity financing, the Company was approved to receive the South African Department of Trade and Industry (“DTI”) grant on May 26, 2014 for an amount of Rand 7,967,804 (USD\$689,500) under the Capital Projects Feasibility Program. The grant will be dispersed to the Company as the Company meets certain milestones in relation to a number of activities including environmental and social impact studies, mine planning, design of the processing plant and tailings storage facility, flotation and hydrometallurgical optimization and marketing studies.

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 March 31, 2015.

(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, 2015 and 2014

(Reported in US dollars unless indicated otherwise)

(Unaudited)

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 the Company 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 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 equity 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.

(iii) Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the

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3. BASIS OF PRESENTATION (continued)

reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(f) New IFRS pronouncements not yet implemented

The following IFRS pronouncements have been issued by the IASB as at March 31, 2015, 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 financial statements.

(i) IFRS 9 financial instruments

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

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, 2017, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

(iii) IAS 38 intangible assets

Amendments to IAS 38 provides clarification of acceptable methods of depreciation and amortization. The amendments were issued in May 2014 and apply to annual reporting periods beginning on or after January 1, 2016, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

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, 2014. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2014.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2013	\$ 10,020	\$ (4,969)	\$ 5,051
Less Depreciation	-	(311)	(311)
Balance at March 31, 2014	10,020	(5,280)	4,740
Less Depreciation	-	(934)	(934)
Balance at December 31, 2014	10,020	(6,214)	3,806
Disposal of asset	(9,733)	6,099	(3,634)
Less Depreciation	-	(6)	(6)
Balance at March 31, 2015	\$ 287	\$ (121)	\$ 166

On February 2, 2015, the Company sold a vehicle used in Malawi.

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Notes to the Consolidated Interim Financial Statements
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(Unaudited)

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, 2015, the Company had incurred costs of \$36,007 (2014 - \$3,946) for administrative services. As of March 31, 2015 the Company has an outstanding payable to Leo Mining in the amount of \$43,279 (2014 – \$6,294). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however this has been waived in 2014 and 2013.
- b) Digby Wells Environmental (“Digby”), by virtue of a common director, is considered a related party. During the three months ended March 31, 2015, the Company has incurred costs of \$nil (2014 – \$12,370) for environmental services. As of March 31, 2015, there was an outstanding payable to Digby for \$nil (2014 – \$5,248).
- c) A partner of Stikeman Elliott (London) LLP (“Stikeman”) became a director of the Company in 2014. Stikeman is, therefore, considered a related party. During the three months ended March 31, 2015, the Company has accrued \$17,318 (2014 – \$91,628) for legal services. As of March 31, 2015, there was an outstanding payable to Stikeman for \$102,932 (2014 – \$91,628).
- d) Included in due to related parties at March 31, 2015, was \$66,938 (2013 - \$6,705) due to officers of the Company. The amounts owed are unsecured, due on demand and non-interest bearing.

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, 2012		37,442,855	\$5,632,076
Non-brokered offering	(i)	4,285,715	730,000
Warrants valuation - March 1, 2013		-	(99,771)
Brokered offering	(ii)	8,836,033	1,522,209
Warrants valuation - April 11, 2013		-	(237,062)
Agent warrants	(ii)	-	(39,195)
Share issue costs	(iii)	-	(137,559)
Closing balance December 31, 2013		50,564,603	\$7,370,698
Brokered offering - March 24, 2014	(iv)	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	(v)	6,445,250	583,533
Warrants valuation		-	(550,193)
Agent warrants		-	(27,867)
Share issue costs	(vi)	-	(242,390)
Closing balance March 31, 2015 and December 31, 2014		73,296,956	\$7,173,622

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Notes to the Consolidated Interim Financial Statements
For the three months ended March 31, 2015 and 2014
(Reported in US dollars unless indicated otherwise)
(Unaudited)

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\$97,026) 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. The securities issued, have a hold period of four months and one day from the date of issue.
- (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. The securities issued, have a hold period of four months and one day from the date of issue.
- (iii) Share issue costs of US \$242,390 were paid for agent and legal services and regulatory exchange filing fees.

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".

	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, 2014	0.35	-	(2,142,858)	(4,860)
Warrants expired – April 11, 2014	0.35	-	(4,418,016)	(13,255)
Warrants issued – March 24, 2014	0.20	4.0	16,262,603	1,365,728
Warrants issued – April 3, 2014	0.20	4.0	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	4.0	22,707,853	\$ 1,614,013
Foreign exchange effect	-	-	-	(158,556)
Fair value change at March 31, 2015	-	-	-	174,330
Balance at March 31, 2015	\$ 0.20	4.0	22,707,853	\$ 1,629,787

MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements
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(Reported in US dollars unless indicated otherwise)
(Unaudited)

7. SHARE CAPITAL (continued)

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:

	March 24, 2014	April 3, 2014	March 31, 2015
	(I)	(II)	Revaluation
Risk free interest rate	1.69%	1.67%	0.75 %
Expected volatility	144%	143%	185%
Share price	\$0.11	\$0.11	\$0.08
Foreign exchange rate	1.1217	1.1035	1.2683
Remaining life	5.00	5.00	3.98

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 interim statements of comprehensive loss for the three months ended March 31, 2015 was \$63,573 (2014 - \$73,009). 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:

	Options Issued	Options Cancelled (1)	Options Forfeited (2)	Options Expired (3)	Adjusted Options Outstanding	Weighted Average Exercise Price (CDNS)	Options Exercisable	Weighted Average Remaining Contractual Life (years)
Balance at December 31, 2012	2,942,500	(850,000)	-	(62,500)	2,030,000	0.50	2,030,000	5.9
Granted - September 25, 2013	2,030,000	(37,500)	(112,500)	-	1,880,000	0.20	1,410,000	8.4
Balance at December 31, 2013	4,972,500	(887,500)	(112,500)	(62,500)	3,910,000	0.36	3,440,000	7.5
Granted May 30, 2014	3,000,000	-	-	-	3,000,000	0.125	750,000	9.1
Balance at December 31, 2014	7,972,500	(887,500)	(112,500)	(62,500)	6,910,000	\$0.26	4,190,000	8.0

(1) June 2014 cancelled options:

- 600,000 vested options issued to directors on January 17, 2011, were cancelled.
- 50,000 vested options issued to an employee on January 17, 2011, were cancelled.
- 200,000 vested options related to a resignation, issued December 11, 2012, were cancelled.
- 37,500 vested options related to a resignation, issued on September 25, 2013, were cancelled.

(2) In March 2014, 112,500 unvested options related to a resignation, issued on September 25, 2013, were forfeited.

(3) On June 16, 2014, 62,500 options issued to an investor relations firm on June 16, 2011 expired.

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7. SHARE CAPITAL (continued)

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	5.8
Granted - June 29, 2011	June 28, 2021	330,000	330,000	\$0.55	6.2
Granted - September 25, 2013	September 24, 2023	1,880,000	1,410,000	\$0.20	8.4
Granted - May 30, 2014	May 29, 2024	3,000,000	750,000	\$0.13	9.1
Balance at March 31, 2015		6,910,000	4,190,000	\$0.26	8.0

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used in arriving at the fair value for the options that were issued during the years ended December 31, 2014 and 2013:

	May 30, 2014	September 25, 2013
Risk free interest rate	2.24%	2.57%
Expected life	10 years	10 years
Expected volatility	142%	128%
Dividends	Nil	Nil
Forfeiture rate	5%	5%
Fair value at issuance	\$0.12	\$0.17

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 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 and restricted cash 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 to be 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 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 United States dollar, and the local currency in Malawi (Kwacha). The Company

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Notes to the Consolidated Interim Financial Statements
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8. FINANCIAL INSTRUMENTS (CONTINUED)

raises its equity in the Canadian dollar and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. As at March 31, 2015 and 2014, the following cash balances were held by the Company:

	As at March 31,	
	2015	2014
Canadian dollar	\$ 2,834	\$ 1,420,548
United States dollar	60,232	8,000
Malawi Kwacha	-	8,120
	<u>\$ 63,066</u>	<u>\$ 1,436,668</u>

A 5% reduction in the value of the Canadian dollar in comparison to the United States dollar will have a negligible effect on the Company's cash balance.

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:

- 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 the fair value; 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.

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 assets and liabilities.

The following table outlines the maturities of the Company's liabilities:

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	\$ 91,734	\$ 91,734
Due to related parties	\$ 213,149	\$ 213,149

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.

MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(Reported in US dollars unless indicated otherwise)

(Unaudited)

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 (foreign exchange rate MWK438):

Exploration commitments, 2 years	\$ 342,466
Ground rent, 2 years	19,386
<hr/>	
Total annual commitment, 2 years	\$ 361,852

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 on a three-year basis, originally, and as of September 10, 2013 was renewed for an additional two years. The future spending commitments for exploration expenses with the Government of Malawi are 250,000,000 Kwacha (foreign exchange rate MWK438):

Exploration commitments, 2 years	\$ 570,780
Ground rent, 2 years	21,370
<hr/>	
Total annual commitment, 2 years	\$ 592,150

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.

10. CAPITAL MANAGEMENT

The Company's total capital deficiency for the three months ended March 31, 2015 is (\$1,858,678), which consists of total deficiency. The operations of the Company for the next 12 months will be partially funded by a non-brokered private placement ("Financing"), which closed in two tranches on March 24, 2014 and April 3, 2014 (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.