MKANGO RESOURCES LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2014

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 by management of the Company; and it should be read in conjunction with the consolidated interim financial statements and accompanying notes for the three months ended March 31, 2014 (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 May 30, 2014.

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

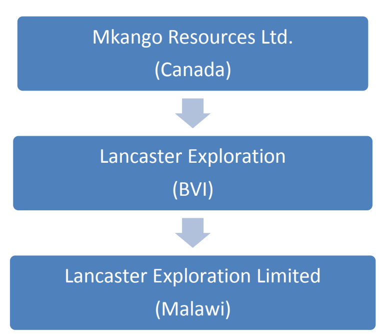
Readers are cautioned that this MD&A contains certain forward-looking statements. Please see the section concerning "Forward Looking Statements" below.

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 common shares of the Company ("Common Shares") are 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 a rare earth and associated minerals exploration and development company with a portfolio of properties in the Republic of Malawi, Africa, including 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, a wholly owned subsidiary of Lancaster, was incorporated under the laws of Blantyre, Malawi on May 19, 2011.

GOING CONCERN

The 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 $434,613 for the three months ended March 31, 2014 (2013 - $418,576) and has a deficit of $9,588,186 (Dec 31, 2013 - $9,153,573). The Company is in the process of acquiring, exploring and developing its mineral interests.

The operations of the Company for the next 12 months will be funded by a non-brokered private placement ("Financing"), which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 8 and 12).

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 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 March 31,	2014	2013
Cash used by operations	$ (287,744)	$ (294,560)
Cash from financing activities	1,281,904	907,665
Cash and restricted cash	1,436,668	937,228
Total comprehensive loss attributable to common shareholders	(434,613)	(418,576)
Loss per share - basic and diluted	$ (0.01)	$ (0.01)
Weighted average common shares outstanding	51,829,472	38,871,426
Evaluation and exploration spending:		
Malawi	153,583	86,839
Current assets	1,447,555	1,065,217
Current liabilities, excluding revaluation of warrants	215,176	273,692
Working capital	$ 1,232,379	$ 791,525

SUMMARY OF QUARTERLY RESULTS

Total Operations	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	$ -	$ 15	$ -	$ -	$ -	$(13)	$(500)	$(418)
Expenses	435,418	765,081	368,331	657,872	424,494	524,263	465,617	832,006
Warrant fair value loss (gain)	(805)	(563,069)	93,039	158,078	(5,918)	180	(147,313)	(398,881)
Gain on loan forgiven	-	-	-	-	-	15,343	-	-
Net revenue (loss) for period	(434,613)	(202,012)	(461,370)	(815,950)	(418,576)	(509,113)	(318,804)	(433,543)
Loss per share - basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Total assets	1,452,295	507,087	1,133,729	1,516,545	1,070,915	447,527	720,299	1,350,961
Cash and restricted cash	*1,436,668*	*440,319*	*1,068,939*	*1,427,839*	*937,228*	*324,784*	*650,139*	*1,136,966*

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

The Company incurred a net operating loss of $434,613 and $418,576 for the three months ended March 31, 2014 and March 31, 2013, respectively. Total expenses for the three months ended March 31, 2014 were $470,895, which was a $55,606 increase over 2013 total expenses of $415,289. During the three months ended March 31, 2014, closing costs were incurred associated with the non-brokered private placement in March and April of 2014 (the "2014 Financing"), undertaking regional exploration in the Thambani. Licenses, progressing the environmental and social impact studies in relation to the Songwe project and ongoing mineralogical studies and metallurgical test work, and other costs relating to the pre-feasibility study. In comparison, expenditures incurred during the three months ended March 31, 2013, were due to activities related to closing of a non-brokered private placement in March and April of 2013 (the "2013 Financing").

General and administrative expenses decreased by $74,512 for the three months ended March 31, 2014, from $243,991 to $318,503 for the three months ended March 31, 2014 and 2013, respectively. The reduction was due to three reasons. First, the Company incurred lower travel costs during Q1 2014 ($73,902) which was offset by higher salary costs $10,910 for a net reduction of ($62,992). Secondly, there was a reduction in administrative costs required to maintain the Canadian head office of ($58,100) for the three months ended March 31, 2014. Thirdly, the foreign exchange rates, which the company's expenditures were subject to during Q1 2014, provided a financial advantage to the Company of $37,380 (2013 - ($9,200), for a total year over year benefit of $46,580 for the three months ended March 31, 2014.

Mineral and exploration expenses increased by $66,744 in Q1 2014 to $153,583 from $86,839 in Q1 2013 as the Company was progressing the environmental and social impact studies in relation to the Songwe project, ongoing mineralogical studies and metallurgical test work and other costs relating to the pre-feasibility study.

The Company recognized a stock based compensation expense in Q1 2014 of $73,009 (2013 - $9,332), a $805 gain on the revaluation of warrants (2013 gain of $5,918), depreciation expense of $311 (2013 - $615) and a foreign exchange gain of $35,476 (2013 gain of $339).

The company's cash balance as at March 31, 2014 was $1,436,668 (December 2013 - $440,319). The increase in the cash resulted from the closing of the first tranche of the 2014 Financing. Cash consumption during the three months ended March 31, 2014 was, in addition to normal G&A, progressing the environmental and social impact studies in relation to the Songwe project, ongoing mineralogical studies and metallurgical test work and other costs relating to the pre-feasibility study in addition to costs which were incurred as a result of closing costs associated with the 2014 Financing. The first tranche closed March 24, 2014 and the second tranche closed on April 3, 2014 (see

"Subsequent Events"). Cash consumption during the comparative period was the result of marketing and administering the 2013 Financing, in which the first tranche closed March 1, 2013 and the second tranche closed April 11, 2013.

Total assets increased by $945,208 from $507,087 at December 31, 2013 to $1,452,295 at March 31, 2014. The increase is due primarily to the closing of the first tranche of the Financing in March 2014. The Company raised $907,665, net of share issue costs.

DISCUSSION OF OPERATIONS

The Company's corporate strategy is to further delineate the rare earth mineralization at Songwe Hill and secure additional rare earth element and other mineral opportunities in Malawi and elsewhere.

As at March 31, 2014, the Company holds a 100% interest in two exploration licenses in Malawi through its ownership of Lancaster. On January 21, 2010 Lancaster was granted the rights to the Phalombe License and on September 10, 2010 Lancaster was granted the rights to the Thambani License. The Thambani License is at an early stage of exploration, whereas the Songwe Hill rare earth project, located in the Phalombe License, has a 43-101 compliant mineral resource estimate.

EXPLORATION LICENSES

The Company is a mineral exploration company whose primary business is to conduct exploration activities for rare earth elements and associated minerals. Initially, Lancaster has established the Republic of Malawi as its platform country, focusing primarily on the Phalombe district, where past exploration indicated strong geological potential for rare earths ("REE") and other minerals.

1. SONGWE HILL

Through its ownership of Lancaster, the Company holds a 100% interest in the Phalombe License, an exclusive prospecting license over an area of 1,283 km2 in southeast Malawi. Its main exploration target is the Songwe Hill deposit, which features carbonatite hosted rare earth mineralization and was subject to previous exploration programs in the late 1980s and in 2010, the latter managed by Lancaster. 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, 2013.

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

OVERVIEW

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.

EXPLORATION

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 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 first quarter of 2014, the Company has been progressing the environmental and social studies in relation to the Songwe project, ongoing mineralogical studies and metallurgical test work, and other costs relating to the pre-feasibility study.

2. THAMBANI MWANZA DISTRICT

Lancaster was granted an additional exploration license by the Malawi by the Minister of Natural Resources, Energy and Environment on September 10, 2010 in respect of an area of 468 km² in Thambani, Mwanza District, Malawi. 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. In September 2013, the Government of Malawi has granted a further two year renewal for Exclusive Prospecting License 0303/10R ("the Thambani License"), in southeast Malawi.

OVERVIEW

Mkango has conducted an extensive regional exploration program within the 486 km2 Thambani License, primarily focused on anomalous uranium targets across the Thambani Massif and the nepheline-bearing syenite gneiss, which dominates the northeastern part of the license. The work to date has identified a number of potential uranium targets over the Massif. Initial results from follow up reconnaissance geochemical sampling returned locally anomalous uranium values, ranging up to 1,545 ppm U3O8. Geological mapping and systematic geochemical sampling are currently underway in order to help constrain the nature and extent of the uranium-style mineralization associated with the Massif.

EXPLORATION

The exploration activities to date have included acquisition of Landsat7 and ASTER satellite imagery, systematic ground radiometric surveys to confirm and detail previously-known uranium airborne anomalies, reconnaissance geological mapping and litho-geochemical sampling programs. Uranium mineralization was previously identified in the Thambani area during exploration programs conducted in the 1950s, when numerous trenches were dug and two exploratory boreholes were drilled in the area. These trenches have been re-opened and investigated by Mkango. The exploration work has identified a number of potential uranium targets across the Thambani Massif which is chiefly composed of nepheline-bearing syenite gneiss and forms two prominent ridges known as Thambani East Ridge and West Ridge. The ground radiometric surveys have confirmed two distinct uranium anomalies across the 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-bearing syenite body with the surrounding country rock, biotite-gneiss. Alongside the uranium targets, exploration work on the Thambani license has also identified a number of areas with potential for niobium, corundum and zircon.

EXPENDITURES

	For the year ended March 31, 2014	2013
Administrative expenses	$ 137,888	$ 163,904
Investor communication expenses	12,635	37,286
Malawi field office expenses	85,977	83,578
Legal fees	7,490	25,872
Audit fees	-	7,863
Stock option expense	73,009	9,332
Depreciation	311	615
Mineral exploration expenditures		
Environmental studies	13,376	-
Ground rental fee	30,097	-
Drilling	45,698	-
Camp equipment and travel	-	-
Technical review and analysis	64,412	-
Consulting fees	-	86,839
Total	$ 470,895	$ 415,289

PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2012	10,020	(3,707)	6,313
Less Depreciation	-	(615)	(615)
Balance at March 31, 2013	10,020	(4,322)	5,698
Less Depreciation	-	(647)	(647)
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

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's 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 $434,613 for the three months ended March 31, 2014 (2013 - $418,576) and has a deficit of $9,588,186 (Dec 31, 2013 - $9,153,573). The Company is in the process of acquiring, exploring and developing its mineral interests.

At March 31, 2014, the Company had a working capital surplus of $1,232,379 (March 31, 2013 - $791,525). The operations of the Company for the next 12 months will be funded from the cash received from the 2014 Financing, which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 8 and 12 to the Financial Statements). At March 31, 2014, the Company had a cash balance of $1,436,668, which includes restricted cash of $3,171. Management believes that the funds available are sufficient to maintain the Company's ability to meet its short and medium term objectives and milestones, including, in the second quarter of 2014, the completion of the prefeasibility study for the Songwe project.

Since the Company does not expect to generate any revenue in the near future, it must continue to rely upon the sale of its equity and/or debt securities to raise capital. There can be no assurance that financing, whether debt or equity, will 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.

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. The Company's consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

ISSUED AND OUTSTANDING SHARE INFORMATION

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.

As at the date of this report, the Company has 73,296,956 Common Shares and 24,019,905 warrants issued. The Company has 4,922,500 stock options issued, of which, 3,437,500 stock options are outstanding.

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 financial statements for the year ended December 31, 2013.

BUSINESS RISKS

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive.

Exploration Risks
The Company is presently pursuing direct investments in international mining projects. There is no assurance that the exploration efforts will be successful. The Thambani License and Phalombe License are the Company's only material exploration licenses in Malawi. The Thambani License is at an early stage of exploration, whereas the Songwe Hill rare earth project, located in the Phalombe License, has a 43-101 compliant mineral resource estimate. There is no certainty that the expenditures made by the Company towards the exploration of the properties underlying the licenses will result in a profit on the investment or the recovery of costs.

Regulatory Risks
The Company's current and future operations are, and may be, governed by laws and regulations governing its industry. Failure to comply with applicable laws, regulations and permit requirements may result in enforcement actions including orders issued by governmental authorities causing activities to be ceased or curtailed, and may include corrective measures requiring capital expenditures or other remedial actions. The Thambani License and Phalombe License are subject to terms and conditions, which may affect their renewal. There can be no assurances that the Company may not be negatively affected by changes in legislation, decisions or order of any governmental, administrative body, or regulatory body, on issues including but not limited to taxation.

Environmental Risks
The mining industry is subject to environmental risks which include, but are not limited to, environmental pollution and natural phenomena like fires, floods, earthquakes, ground movements, cave-ins, inclement weather and unforeseen geological conditions. As such, if any of these risks materialize, they may have a significant adverse effect on the operations of the Company or the cost or the viability of a particular project.

Political and Socioeconomic Country Risks
The Company operates in Malawi, Africa, and is subject to political, social, economic and other risks, including, but not limited to, the renegotiation or nullification of existing licenses, concessions and contracts, changes in pertinent laws or policies and other risks arising out of foreign sovereignty over the areas where the Company conducts exploration.

The Company's operations may also be adversely impacted by Canadian legislation and policy that affects foreign investment and taxation.

Should a dispute arise in relation to the Company's operations in Malawi, the Company may be subject to the exclusive jurisdiction of foreign courts or may be unsuccessful in subjecting foreign persons to Canadian law or enforcing Canadian judgments outside Canada. The Company may also be unable to enforce its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. As such, the Company's operations in Malawi could be materially affected by factors beyond the Company's control.

Other Operational Risks
Other operational risks include, but are not limited to, industrial and transportation accidents, labour disputes, catastrophic accidents, blockades, the effects of noncompliance with laws and regulations and technological failure of exploration methods.

Further, the Company's operations in the exploration of natural resources may result in the company becoming liable if any risks materialize; and any insurance the Company may have may not be sufficient to cover the full extent of such liabilities.

Liquidity Risks
See "Financial Investments and Risk Management – Liquidity Risk" below.

Commodity and Currency Fluctuations
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.

Volatility of Share Prices
Numerous factors may have a significant impact on the market price of the Common Shares. Global stock markets and exchanges have, from time to time, experience extreme price and volume fluctuations, which may have been unrelated to the operations of particular companies. Share prices for many companies in many industries may experience wide fluctuations. Fluctuations in the price of the Common Shares may impair future financings pursued by the Company.

Conflicts of Interest
The directors and officers of the Company are or may become directors or officers of other companies (including the major shareholder of the Company, Leo Mining and Exploration Ltd. ("**Leo Mining**")) or have significant shareholdings in other companies and, to the extent such other companies may participate in ventures in which the Company participates, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The Company and its directors and officers will follow procedures and mechanisms to deal with conflicts of interest as they arise.

The Company manages 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.

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 including short-term deposits 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 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:

<u>Fair values</u>
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.

<u>Concentration risk</u>
The majority of the Company's cash and cash equivalents are held by one major Canadian 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.

<u>Credit risk</u>
The Company has negligible accounts receivable.

<u>Commodity price risk</u>
The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

<u>Liquidity Risk</u>
The Company has limited financial resources and does not generate revenue from its operations. 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, which may be dilutive to existing holders of Common Shares.

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.

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, 2013 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, annually (foreign exchange rate MWK410):

Exploration commitments	$	365,854
Ground rent		31,292
Total commitment	$	397,146

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, 2013, for an additional two years. The future spending commitments for exploration expenses with the Government of Malawi are 250,000,000 Kwacha, annually (foreign exchange rate MWK410):

Exploration commitments	$	609,756
Ground rent		11,414
Total commitment	$	621,170

The Company expects to use the funds received from the private placement equity financings to meet these commitments.

RELATED PARTY TRANSACTIONS

a) As of March 31, 2014 the Company had an outstanding payable to Leo Mining and Exploration Ltd. ("Leo Mining") in the amount of $6,294 (2013 – nil) for general and administrative costs which Leo Mining has paid on behalf of the Company. The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however this has been waived. 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.

b) Digby Wells Environmental ("Digby"), by virtue of a common director, is considered a related party. During the three months ended March 31, 2014, the Company paid Digby $12,370 (2012 – nil) for environmental services. There was an outstanding payable to Digby for $5,248 as of March 31, 2014 (2013 – nil).

c) A partner of Stikeman Elliott (London) LLP ("Stikeman") is a director of the Company and Stikeman is, therefore, considered a related party. During the three months ended March 31, 2014, the Company accrued $91,628 (2012 – nil) for legal services. These amounts remain unpaid as of March 31, 2014 (2013 – nil).

d) The Company paid $89,678 (2012 - $75,000) for key management fees and related costs for the three months ended March 31, 2014. Included in accounts payable and accrued liabilities at March 31, 2014, was $6,705 (2012 - $32,289) due to directors and officers. The amounts owed are unsecured, due on demand and non-interest bearing.

SUBSEQUENT EVENTS

Private Placement

On February 24, 2014, the Company announced that it had entered into a non-binding term sheet with certain affiliates of Sprott Inc. (the "Finders") to act as finders for the Company under the 2014 Financing.

On April 3, 2014, the second tranche of the 2014 Financing closed. The Company issued an additional 6,445,250 units at a price of C$0.10 per unit for gross cash proceeds of C$644,525 under the same terms as the first tranche of the Private Placement, which closed on March 24, 2014 (Note 8(a) to the Financial Statements).

The Company paid cash finders' fees totalling C$40,677 and issued 406,770 finders' warrants in connection with the second tranche of the 2014 Financing. Each finders' warrant entitles the holder to acquire one Common Share for C$0.10 until April 3, 2016.

The securities issued under the second tranche of the 2014 Financing, including any Common Shares issued on the exercise of the warrants and the finders' warrants, have a hold period expiring on August 4, 2014.

If, after four months from the closing date of the Private Placement, the closing price (or the average of the 'bid' and the 'ask', if not traded) of the Common Shares on the TSX Venture Exchange exceeds C$0.30 for a period of 20 consecutive trading days, the Company may, within three trading days thereof, accelerate the expiry of the Warrants to 20 trading days after the issuance of a news release announcing the new expiry date.

Grant From The South African Department Of Trade And Industry

On May 26, 2014, the Company announced that the South African Department of Trade and Industry ("DTI") has approved a grant of Rand 7,967,804 (USD$769,323) to the Company under its Capital Projects Feasibility Program. The grant will be dispersed to the Company between June 2014 and March 2015 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. Mkango previously appointed the following groups to complete these various aspects of the project:

SNC-Lavalin (Pty) Ltd., South Africa	Beneficiation and hydrometallurgical plant, and associated infrastructure
Digby Wells Environmental, South Africa	Environmental and social impact studies
Epoch Resources (Pty) Ltd., South Africa	Tailings storage facility
Met-Chem Consulting (Pty) Ltd., Australia	Metallurgical optimization
Mintek, South Africa	Metallurgical optimization
The MSA Group (Pty) Ltd., South Africa	Mining studies and associated infrastructure
Nagrom Laboratories, Australia	Metallurgical optimization

Restricted Cash

1,300,000 Kwacha (US$3,171), which was held by the Malawi Revenue Authority, customs and excise division as a bank guarantee from the Company in order to allow drilling equipment to be imported into the country for its Stage 2 drilling program was released back to the Company's bank account on April 29, 2014.

DIRECTORS AND OFFICERS AS AT MARCH 31, 2014

William Dawes, Director and Chief Executive Officer
Alexander Lemon, Director and President
David Berg, Director and Corporate Secretary
Adrian Reynolds, Director
Eugene Chen, Director
Derek Linfield, Director
Sandra Beaulieu, Chief Financial Officer