Consolidated Financial Statements of

MKANGO RESOURCES LTD.

For the years ended December 31, 2013 and 2012

Management's Responsibility

To the Shareholders of Mkango Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors has appointed an Audit Committee, consisting primarily of directors who are neither management nor employees of the Company. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the Shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Signed "Alex Lemon"
Alex Lemon, President

Signed "Sandra Beaulieu"
Sandra Beaulieu, CFO

April 26, 2014

Independent Auditors' Report

To the Shareholders of Mkango Resources Ltd.:

We have audited the accompanying consolidated financial statements of Mkango Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mkango Resources Ltd. and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on Mkango Resources Ltd.'s ability to continue as a going concern.

MNP LLP

April 26, 2014
Calgary, Alberta

Chartered Accountants

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

As at:	Notes	**December 31, 2013**	December 31, 2012
ASSETS			
Current			
Cash and cash equivalents		**$ 437,378**	$ 320,766
Restricted cash	5	**2,941**	4,018
Accounts receivable		**3,475**	5,964
Prepaid expenses and deposits		**58,242**	110,466
Total currents assets		**502,036**	441,214
Property and equipment	6	**5,051**	6,313
Total assets		**507,087**	447,527
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**185,112**	142,807
Due to related party	7	**6,540**	-
Warrants - derivative financial instruments	8(b)	**18,115**	-
Total current liabilities		**209,767**	142,807
EQUITY			
Share capital	8(a)	**7,370,698**	5,632,076
Contributed surplus		**2,080,195**	1,928,324
Deficit		**(9,153,573)**	(7,255,680)
Total equity		**297,320**	304,720
Total liabilities and equity		**$ 507,087**	$ 447,527
Going concern	2		
Commitments	11		
Subsequent events	13		

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 financial statements.

MKANGO RESOURCES LTD.
Consolidated Statements of Comprehensive Loss
Reported in US dollars

	Notes	For the year ended: December 31, 2013	December 31, 2012
Expenses			
General and administrative		**$ 1,257,192**	$ 1,309,607
Mineral exploration expenditures		**773,446**	2,248,336
Depreciation	6	**1,262**	2,462
Share-based payments	8(c)	**112,676**	191,447
		2,144,576	3,751,852
Other items			
Interest income		**(15)**	(2,373)
Gain on revaluation of warrants	8(b)	**(317,870)**	(823,459)
Gain on forgiveness of amount due to related party		**-**	(15,343)
Foreign exchange loss (gain)		**71,202**	(52,034)
Net loss and comprehensive loss		**$ (1,897,893)**	$ (2,858,643)
Net loss per share - basic and diluted		**$ (0.04)**	$ (0.08)
Weighted average shares outstanding basic and diluted		**47,415,063**	37,442,855

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the year ended: December 31, 2013	December 31, 2012
Cash flow from operating activities			
Net loss and comprehensive loss for the year		**$ (1,897,893)**	$ (2,858,643)
Items not affecting cash:			
Share-based payments	8(c)	**112,676**	191,447
Gain on revaluation of warrants	8(b)	**(317,870)**	(823,459)
Depreciation	6	**1,262**	2,462
Gain on forgiveness of loan due to related party		**-**	(15,343)
Unrealized foreign exchange gain	8(b)	**(848)**	(19,592)
Change in non-cash operating capital			
Accounts receivable and prepaid expenses and deposit		**54,713**	98,535
Accounts payable and accrued liabilities and due to related party		**48,845**	9,957
Cash used by operating activities		**(1,999,115)**	(3,414,636)
Cash flow from financing activities			
Issue of share capital, net of issue costs	8(a)	**2,114,650**	-
Change in cash and cash equivalents		**115,535**	(3,414,636)
Cash and cash equivalents at the beginning of the year		**324,784**	3,739,420
Cash reclassified to restricted cash		**(2,941)**	(4,018)
Cash and cash equivalents at the end of the year		**$ 437,378**	$ 320,766

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD.
Consolidated Statements of Changes in Equity
Reported in US dollars

	Share capital	Contributed Surplus	Deficit	Total
Balance at December 31, 2011	$ 5,632,076	$ 1,736,877	$ (4,397,037)	$ 2,971,916
Share based payments	-	191,447	-	191,447
Net loss and comprehensive loss	-	-	(2,858,643)	(2,858,643)
Balance at December 31, 2012	$ 5,632,076	$ 1,928,324	$ (7,255,680)	$ 304,720
Common shares issued	2,252,209	-	-	2,252,209
Share issue costs	(176,754)	39,195	-	(137,559)
Warrant valuation	(336,833)	-	-	(336,833)
Share based payments	-	112,676	-	112,676
Net loss and comprehensive loss	-	-	(1,897,893)	(1,897,893)
Balance at December 31, 2013	$ 7,370,698	$ 2,080,195	$ (9,153,573)	$ 297,320

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd (the "Company" or "Mkango") is rare earth element and associated minerals exploration and development in the Republic of Malawi, Africa.

The Company was 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"). 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 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.

On May 19, 2011, Lancaster Exploration Limited was incorporated under the laws of Blantyre, Malawi. Lancaster Exploration Limited is a wholly owned subsidiary of Lancaster.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 26, 2014.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $1,897,893 for the year ended December 31, 2013 (2012 - $2,858,643) and has a deficit of $9,153,573 (2012 - $7,255,680). The Company is in the process of acquiring, exploring and developing its mineral interests. These factors indicate the existence of a material uncertainty that cast significant doubt on the Company's ability to continue as a going concern.

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 13).

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.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), in effect on December 31, 2013.

(b) Basis of presentation and measurement

These consolidated financial statements have been prepared using the historical cost convention, except for certain financial instruments measured at fair value through profit and loss ("FVTPL") and share-based payment transactions measured at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in US dollars, which is the functional currency of the Company and its subsidiaries.

(d) Principles of consolidation

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

3. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgments

The preparation of the consolidated 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 (Note 4a)

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 at December 31, 2013, 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. The Company has determined the functional currency of each consolidated entity as the US dollar. 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 8c)

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) Income taxes (Note 9)

The Company follows the liability method for calculating deferred taxes. Differences between the amounts reported in the consolidated financial statements of the Company and their respective tax bases are applied to tax rates in effect to calculate the deferred tax asset or liability. In addition, the Company recognizes the future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(iii) Determination of fair values (Note 10)

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

3. BASIS OF PRESENTATION (continued)

(f) New accounting policies

On January 1, 2013, Mkango adopted the following standards and amendments, which became effective for annual periods on or after January 1, 2013:

IAS 1, "Presentation of Financial Statements" which requires companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the statement of comprehensive income or loss. The retrospective adoption of this amendment did not have any impact on the consolidated financial statements.

IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the consolidated financial statements.

IFRS 10, "Consolidated Financial Statements," supersedes IAS 27 "Consolidated and Separate Financial Statements". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in the consolidated financial statements.

IFRS 11, "Joint Arrangements" replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". IFRS 11, "Joint Arrangements," requires a participant in a joint arrangement ("participant") to classify it's interest as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the participant recognizes its share of the assets, liabilities, revenue and expenses of the joint operation. Under previous IFRS, entities had the choice to proportionately consolidate or equity account for interests in joint ventures. The Company performed a review of its interest in other entities and did not identify any interests for which, it shares joint control, as such, there is no impact as a result of this standard.

IFRS 12, "Disclosure of Interests in Other Entities," combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, and associates as well as consolidated structured entities. The adoption of this standard had no impact on the disclosures required in the consolidated financial statements.

IFRS 13, "Fair Value Measurement," establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The disclosure requirements of this standard have been applied as part of Note 10 to the consolidated financial statements.

(g) New IFRS pronouncements not yet implemented

The following IFRS pronouncements have been issued by the IASB as at December 31, 2013 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.

IFRS 2, "Share-based Payment". The amendments to IFRS 2, issued in December 2013, were made to the definitions of "vesting conditions" and "market conditions" and the definitions of "performance condition" and "service condition" were added. A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are to be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3, "Business combinations". The amendments to IFRS 3, issued in December 2013, clarify the accounting for contingent consideration in a business combination. At each reporting period, an entity measures contingent consideration classified as an asset or a financial liability at fair value, with changes in fair value recognized in profit or loss. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 9, "Financial instruments". In November 2013, IFRS 9 was amended with significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018.

3. BASIS OF PRESENTATION (continued)

IAS 24, "Related party disclosures". The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

IAS 36, "Impairment of Assets". The amendment to IAS 36, issued May 2013, limits disclosure requirements to the recoverable amounts of an impaired cash generating unit ("CGU") when the carrying value is based on fair value less cost to sell. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014.

IFRIC 21, "Levies". IFRIC 21 Levies, issued in May 2013, provides guidance on the accounting for levies within the scope of IAS 37 provisions, contingent liabilities and contingent assets. The main features of IFRIC 21 are as follows:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation; and
- The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

The standard is effective for annual periods beginning on or after January 1, 2014.

4. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's consolidated financial statements.

(a) Intangible exploration and property and equipment assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Exploration and evaluation costs which would typically include pre-licensing, preliminary property evaluation, drilling and directly attributable general and administrative costs are recognized in the statement of comprehensive loss as mineral exploration expenditures, including the costs of acquiring licenses pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. Upon determination of technical feasibility and commercial viability, the costs incurred prospectively are capitalized to a separate category within property and equipment referred to as mineral interests.

Property and equipment ("P&E") expenditures

Items of property and equipment, which include mineral interests, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing and categorized within property and equipment as mineral interests. Property and equipment is comprised of drilling and mining servicing assets, office equipment and other corporate assets. When significant parts of an item of property and equipment, including mineral interests, have different useful lives, they are accounted for as separate items (major components).

Property and equipment assets, categorized as mineral interests, are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Gains and losses on disposal of an item of property and equipment, including mineral interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the consolidated statement of comprehensive loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of comprehensive loss, as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and is accumulated on a property-by-property basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of comprehensive loss, as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets will be depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those mineral reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Corporate assets including vehicles are recorded at cost and are depreciated over the estimated useful life of the asset using the declining balance based on a 20% rate. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(b) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of comprehensive loss.

(ii) Non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less costs to sell is the amount obtained from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(c) Decommissioning obligation

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at December 31, 2013, no decommissioning obligation has been recognised.

(d) Foreign currency translation

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the date of the consolidated statement of financial position for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in the consolidated statement of comprehensive loss.

(e) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments. All instruments that could have a dilutive effect are considered anti-dilutive when the Company is in a loss position.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based payments

The Company has issued options to directors, officers, employees and non-employees to purchase common shares. The fair value of options determined using the Black-Scholes option pricing model on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. Options to non-employees are measured at the fair value of the goods or services received, unless the fair value of the options are more reliably determinable, and are recognized each reporting date as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the estimated number of options that vest.

(h) Cash and cash equivalents

Cash comprises of cash on hand and term deposits held with banks, maturing in 3 months or less.

(i) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and due to related party. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss ("FVTPL")

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has classified cash and cash equivalents, and restricted cash as fair value through profit or loss.

Loans and receivables

Other non-derivative financial assets classified as loans and receivables include accounts receivable, which are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities

Accounts payable and accrued liabilities and due to related party are classified as other financial liabilities and are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

Warrants denominated in a currency other than the Company's functional currency are derivative financial instruments designated as FVTPL and are measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(j) Provisions

The Company makes a distinction between:

- Provisions: present obligations, either legal or constructive, arising from past events, the settlement of which is expected to give rise to an outflow of resources the amount and timing of which are uncertain; and

(reported in US dollars unless indicated otherwise)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources.

Provisions are recognized when the liability or obligation, giving rise to the indemnity or payment arises, to the extent that its amount can be reliably estimated and it is probable that the commitment will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed.

5. RESTRICTED CASH

The Malawi Revenue Authority, customs and excise division ("MRA"), required a 1,300,000 MWK ($2,941 as at December 31, 2013) bank guarantee from the Company in order to allow drilling equipment to be imported into the country for its Stage 2 drilling program.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2011	10,020	(1,245)	8,775
Less Depreciation	-	(2,462)	(2,462)
Balance at December 31, 2012	$ 10,020	$ (3,707)	$ 6,313
Less Depreciation	-	(1,262)	(1,262)
Balance at December 31, 2013	$ 10,020	$ (4,969)	$ 5,051

7. RELATED PARTY TRANSACTIONS

a) As of December 31, 2013 the Company had a payable to Leo Mining and Exploration Ltd. ("Leo Mining") in the amount of $6,540 (2012 – nil). 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 year ended December 31, 2013, the Company paid Digby $169,127 (2012 – nil) for environmental services. There were no amounts due to Digby as of December 31, 2013.

c) Included in accounts payable and accrued liabilities at December 31, 2013, was $8,077 (2012 - $3,870) due to directors and officers. The amounts owed are unsecured, due on demand and non-interest bearing.

d) Key management remuneration to directors and executives

	2013	2012
Salary	$ 410,000	$ 353,158
Share-based payments	56,672	132,238
Total compensation	$ 466,672	$ 485,396

(reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL

a) Common Shares

The Company is authorized to issue an unlimited number of common and preferred shares without nominal or par value. The Company has not issued any preferred shares to date. The holders of common shares are entitled to one vote for each share on all matters submitted to a shareholder vote and are entitled to share in all dividends that the Company's board of directors, in its discretion, declares from available funds.

	Ref	Number	Amount
Closing balance December 31, 2011 and 2012		37,442,855	$5,632,076
Non-brokered offering	(i)	4,285,715	730,000
Warrants valuation - March 1, 2013	(i), (b)	-	(99,771)
Brokered offering	(ii)	8,836,033	1,522,209
Warrants valuation - April 11, 2013	(ii), (b)	-	(237,062)
Share issue costs - agent warrants	(ii)	-	(39,195)
Share issue costs - cash	(iii)	-	(137,559)
Closing balance December 31, 2013		50,564,603	$7,370,698

(i) On March 1, 2013, the Company issued 4,285,715 units at C$0.175 per unit pursuant to the non-brokered offering to Leo Mining, a related party. The C$750,000 (US$730,000) gross proceeds of the non-brokered offering were allocated between common shares C$647,518 (US$630,229) and warrants C$102,482 (US $99,771) based on the the fair value of the warrants using the Black-Scholes option pricing model. Each unit consists of one common share and one-half of a common share purchase warrant of Mkango. Each whole warrant entitles the holder to acquire one common share for C$0.35 for a period of 12 months following the closing date of the financing. Leo Mining is the Company's majority shareholder and is considered a related party by virtue of common directors and officers who have an ownership in and exercise significant influence over the Company.

(ii) On April 11, 2013, the Company issued 8,836,033 units at C$0.175 per unit pursuant to the non-brokered offering. The C$1,545,544 (US $1,522,209) gross proceeds of the non-brokered offering were allocated between common shares C$1,304,848 (US $1,285,147) and warrants C$240,696 (US $237,062) based on the fair value of the warrants using the Black-Scholes option pricing model. Each unit consists of one common share and one-half of a common share purchase warrant of Mkango. Agents received 431,266 agents warrants valued at US$39,195. Each whole warrant entitles the holder to acquire one common share for C$0.35 for a period of 12 months following the closing date of the financing.

(iii) Share issue costs of US $137,559 were paid for agent and legal services and regulatory exchange filing fees.

.

8. 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 into the scope of IFRS 2.

	Exercise Price (CDN$)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2011	0.75	1.0	7,760,750	843,051
Change in fair value				
Foreign exchange impact				(19,592)
Warrant expiry			(7,760,750)	(823,459)
Balance at December 31, 2012			-	-
Warrants issued – March 1, 2013	0.35	0.20	2,142,858	99,771
Warrants issued – April 11, 2013	0.35	0.30	4,418,016	237,062
Fair value change at year end	-	-	-	(317,870)
Foreign exchange impact	-	-	-	(848)
Balance at December 31, 2013	$ 0.35	0.24	6,560,874	$ 18,115

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 1, 2013 (First Tranche)	April 11, 2013 (Second Tranche)	December 31, 2013 (First Tranche)	December 31, 2013 (Second Tranche)
Risk free interest rate	0.94%	0.95%	0.99%	0.99%
Expected volatility	141%	142%	235%	188%
Share price	$0.15	$0.16	$0.07	$0.07
Foreign exchange rate	1.0309	1.0101	1.0636	1.0636
Remaining life	1.00	1.00	0.16	0.28

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 statement of comprehensive loss for the year ended December 31, 2013 and 2012 is $112,676 and $191,447 respectively. The corresponding amount has been recognized in contributed surplus. The options vest over a variety of terms ranging from 12 to 18 months.

(reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

c) Share-based payments (continued)

The following table provides a summary of the status of the Company's stock option plan and changes during the years ended:

	Options Outstanding		Weighted Average Exercise Price (CDN$)	Options Exercisable	Weighted Average Remaining Contractual Life (years)
Balance at December 31, 2011	2,742,500		0.50	1,457,708	8.6
Granted - December 11, 2012	200,000		0.50	200,000	1.9
Balance at December 31, 2012	2,942,500		0.50	2,742,500	7.4
Granted - September 25, 2013	1,980,000		0.20	-	9.3
Balance at December 31, 2013	4,922,500	$	0.39	2,942,500	7.7

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:

	September 25, 2013	December 11, 2012
Risk free interest rate	2.57%	1.13%
Expected life	10 years	3 years
Expected volatility	128%	118%
Dividends	Nil	Nil
Forfeiture rate	5%	5%
Fair value at issuance	$0.17	$0.44

9. INCOME TAX

The differences between the income tax provisions calculated using the statutory rates and the reported income tax provision are as follows:

		December 31, 2013		**December 31, 2012**
Net loss for the year before taxes	$	(1,897,893)	$	(2,858,643)
Statutory tax rate		25.0%		25.0%
Expected income tax recovery		(474,473)		(714,661)
Increase resulting from:				
Revaluation of warrants		(79,468)		(205,865)
Share-based payments		28,169		46,689
Change in estimates, tax rates and other		(19,033)		(7,665)
Tax rate differential between Canada and foreign jurisdictions		(88,175)		(169,471)
Change in deferred tax assets not recognized		632,980		1,050,973
Income tax expense	$	-	$	-

(reported in US dollars unless indicated otherwise)

9. INCOME TAX (continued)

No deferred tax assets have been recognized as it is not probable that future taxable profit will allow the deferred tax asset to be recovered. The major components of the deferred tax assets are as follows:

	December 31, 2013	December 31, 2012
Deferred tax asset:		
Property and equipment	$ 1,491	$ 1,112
Evaluation and exploration costs	1,366,010	1,133,975
Loss carryforwards	1,168,977	752,889
Share issue costs	82,891	98,413
Deferred tax assets	2,619,369	1,986,389
Less: Deferred tax assets not recognized	(2,619,369)	(1,986,389)
	$ -	$ -

As at December 31, 2013, the Company had $1,443,429 (2012 - $896,393) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

2027	$ 79,689
2028	33,104
2029	31,440
2030	29,319
2031	229,587
2032	440,903
2033	599,387
	$ 1,443,429

As at December 31, 2013, the Company had $2,657,284 (2012 - $896,393) in non-capital losses available to claim against future taxable income in Malawi. The non-capital losses have an indefinite life.

10. FINANCIAL INSTRUMENTS

Determination of fair values

As explained in Note 4, 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, amortized cost.

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 liability is measured at level 2.

(reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

The carrying value of accounts receivable, accounts payable and accrued liabilities and due to related party 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 8(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 raises its equity in the Canadian dollar and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. As at December 31, 2013 and 2012, the following balances were held by the Company:

	As at December 31,	
	2013	2012
Canadian dollar	$ 433,626	$ 71,783
United States dollar	3,152	185,892
United Kingdom Sterling	-	61,243
Malawi Kwacha	3,541	5,866
	$ 440,319	$ 324,784

A 5% change in the value of the Canadian dollar in comparison to the United States dollar would cause a change in net loss of approximately $22,000. A 5% change in the value of the Malawi Kwachi in relationship to the United States dollar would not cause a material change in net loss.

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its cash and cash equivalents at banks. However, the interest rate risk is expected to be minimal. The Company does not presently hedge against interest rate movements.

Liquidity risk

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

a) The Company will not have sufficient funds to settle a transaction on the due date;

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. 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.

(reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

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

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	$ 191,652	$ 191,652
Due to related party	$ 6,540	$ 6,540

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.

11. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Malawi Government on a three-year basis, originally, and 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 MWK442):

Exploration commitments	$ 339,367
Ground rent	29,027
Total annual commitment	$ 368,394

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 Kwachi, annually, (foreign exchange rate MWK442):

Exploration commitments	$ 565,611
Ground rent	10,588
Total annual commitment	$ 576,199

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

12. CAPITAL MANAGEMENT

The Company's total capital resources for the year ended December 31, 2013 is $297,320, which consists of total equity. The Company closed an equity issue in two tranches on March 1, 2013 and April 11, 2013, which has provided liquidity through 2013. The Company raised additional funds through an equity issue, which closed in two tranches on March 24, 2014 and April 3, 2014. It is anticipated that these additional funds will meet working capital requirements through 2014. The Company's objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has no externally imposed capital requirements.

13. SUBSEQUENT EVENTS

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 Corporation under its proposed non-brokered private placement (the “Private Placement”).

On March 24, 2014, the Company closed the first tranche of the non-brokered private placement (“Private Placement”) with, amongst others, the Finders. Under the Private Placement, 16,262,603 Units of the Corporation were issued at a price of C$0.10 per Unit for gross cash proceeds of C$1,626,260.

Each Unit consist of one common share (a “Common Share”) and one Common Share purchase warrant (a “Warrant”) of Mkango. Each Warrant entitles the holder to acquire one Common Share for C$0.20 until March 24, 2019.

The Corporation paid cash finders’ fees totalling C$85,628.22 and issued 24,500 Units and 880,782 finders’ warrants in connection with the Private Placement. Each finders’ warrant entitles the holder to acquire one Common Share for C$0.10 until March 24, 2016.

The securities issued under the first tranche of the Private Placement, including any Common Shares issued on the exercise of the Warrants, have a hold period expiring on July 25, 2014.

An insider of the Corporation participated in the Private Placement, thereby making the Private Placement a “related party transaction” as defined under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”). The transaction, however, was exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither the fair market value of any securities issued to or the consideration paid by the insider exceed 25% of the Company’s market capitalization. Derek Linfield, a director of the Corporation, subscribed for 1,500,000 Units. Following the closing of the Private Placement, Mr. Linfield now beneficially owns or controls 1,561,500 Common Shares, representing approximately 2.13% of the issued and outstanding Common Shares on an undiluted basis. Mr. Linfield also owns and controls a total of 1,500,000 Warrants.

On April 3. 2014, the second tranche of the Private Placement 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.

The Corporation paid cash finders' fees totalling C$40,677 and issued 406,770 finders' warrants in connection with the Second Tranche. 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, 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 Corporation 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.

In total, 22,707,853 Units of the Corporation were issued in connection with the Private Placement for gross cash proceeds of C$2,270,785.

The Private Placement remains subject to final acceptance of the TSX Venture Exchange.