



Consolidated Interim Financial Statements of
MKANGO RESOURCES LTD

For the three and six months ended June 30, 2013 and 2012

Unaudited consolidated interim financial statements

In accordance with National Instrument 51-102 released by the Canadian Securities administrators, the Company discloses that its auditors have not reviewed these consolidated interim financial statements for the three and six months ended June 30, 2013 and 2012.

MKANGO RESOURCES LTD
Consolidated Interim Statement of Financial Position
Reported in US dollars

As at	Notes	June 30, 2013	December 31, 2012
ASSETS			
Current			
Cash and cash equivalents		\$ 1,423,867	\$ 320,766
Restricted cash	5	3,972	4,018
Accounts receivable		7,956	5,964
Prepaid and deposit		65,912	110,466
Total currents assets		1,501,707	441,214
Property and equipment	6	5,082	6,313
Total assets		1,506,789	447,527
LIABILITIES			
Current			
Accounts payable and accrued liabilities		146,452	142,807
Warrants - derivative financial instruments	8(b)	610,596	-
Total current liabilities		757,048	142,807
EQUITY			
Share capital	8(a)	7,273,489	5,632,076
Contributed surplus		1,966,458	1,928,324
Accumulated deficit		(8,490,206)	(7,255,680)
Total equity		749,741	304,720
Total liabilities and equity		\$ 1,506,789	\$ 447,527
Going concern	2		
Commitments	10		
Subsequent events	12		

Refer to accompanying notes to the consolidated interim financial statements.

Approved on behalf of the Board:

(signed) "William Dawes"

William Dawes, CEO and Director

(signed) "David Berg"

David Berg, Director

MKANGO RESOURCES LTD
Consolidated Interim Statement of Comprehensive Loss
Reported in US dollars

	Notes	Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2013	2012	2013	2012
Expenses					
General and administrative		\$ 384,172	\$ 341,399	\$ 702,675	\$ 707,720
Mineral exploration expenditures		218,536	449,565	305,375	1,781,976
Depreciation	6	616	616	1,231	1,231
Share based payments	8(d)	12,188	67,443	21,520	157,600
Loss before undernoted		615,512	859,023	1,030,801	2,648,527
Other items					
Interest income		-	418	-	(2,886)
Unrealized (gain) loss on revaluation of warrants	8(b)	158,078	(398,881)	152,160	(676,326)
Realized foreign exchange loss		12,631	1,774	12,292	1,774
Unrealized foreign exchange loss		29,728	-	39,272	-
Foreign exchange (gain) loss on translation		-	(28,791)	-	59,637
Total comprehensive loss attributable to common shareholders		\$ (815,950)	\$ (433,543)	\$ (1,234,526)	\$ (2,030,726)
Net loss per share - basic and diluted		\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.05)
Weighted average shares outstanding basic and diluted		43,502,980	37,442,855	44,142,286	37,442,855

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD
Consolidated Interim Statement of Cash Flows
Reported in US dollars

	Notes	Six Months Ended	
		June 30,	
		2013	2012
Cash flow from operating activities			
Loss for the period		\$ (1,234,526)	\$ (2,030,726)
Adjustments			
Share based payments	8(d)	21,520	157,600
Unrealized gain (loss) on revaluation of warrants	8(b)	152,160	(676,326)
Depreciation	6	1,231	1,231
Foreign exchange loss		51,564	1,774
Accounts receivable and prepaid		42,562	(188,146)
Accounts payable and accrued liabilities		(4,898)	150,457
Cash used by operating activities		(970,387)	(2,584,136)
Cash flow from financing activities			
Issue of share capital, net of issue costs		2,116,463	-
Cash provided by financing activities		2,116,463	-
Effect of exchange rate changes on cash		(46,993)	(23,130)
Change in cash		1,099,083	(2,607,266)
Cash at the beginning of the period		324,784	3,739,420
Cash reclassified to restricted cash		3,972	4,812
Cash at the end of the period		\$ 1,427,839	\$ 1,136,966

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD
Consolidated Interim Statement of Changes in Equity
Reported in US dollars

	Share capital	Contributed Surplus	Deficit	Total
Balance at December 31, 2011 <i>(Restated - Note 14)</i>	\$ 5,632,076	\$ 1,736,877	\$ (4,397,037)	\$ 2,971,916
Share based payments	-	157,600	-	157,600
Total comprehensive loss for the period	-	-	(2,030,726)	(2,030,726)
Balance at June 30, 2012	\$ 5,632,076	\$ 1,894,477	\$ (6,427,763)	\$ 1,098,790
Share based payments	-	33,847	-	33,847
Total comprehensive loss for the period	-	-	(827,917)	(827,917)
Balance at December 31, 2012	\$ 5,632,076	\$ 1,928,324	\$ (7,255,680)	\$ 304,720
Common shares issued	2,253,631			2,253,631
Share issue costs	(137,168)			(137,168)
Warrant valuation	(475,050)	16,614		(458,436)
Share based payments		21,520		21,520
Total comprehensive loss for the period			(1,234,526)	(1,234,526)
Balance at June 30, 2013	\$ 7,273,489	\$ 1,966,458	\$ (8,490,206)	\$ 749,741

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD

Notes to the Consolidated Interim Financial Statements
For the three and six months ended June 30, 2013 and 2012

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd. (the “Company” or “Mkango”) is a rare earth element and associated minerals exploration and development company 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 1400, 700 – 2nd Street SW, Calgary, Alberta Canada, T2P 4V5.

Lancaster was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands 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.

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 interim financial statements of the Company, were authorized for issuance by the Board of Directors on August 29, 2013.

2. GOING CONCERN

These consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of \$1,234,526 for the six months ended June 30, 2013 (2012 - \$2,030,726) and has an accumulated deficit of \$8,490,206 (2012 - \$6,427,763). The Company is in the process of acquiring, exploring and developing its mineral interests. The ability of the Company to continue as a going concern is dependent upon the existence of an economically recoverable mineral resource, obtaining necessary financing to complete the development of such mineral resources, and upon future profitable production.

The Company closed two private placements (“Financing”) during 2013. The Financing closed in two tranches. The first tranche closed on March 1, 2013 and the second tranche closed on April 11, 2013. The funds raised through the Financing will be used for general corporate purposes and to conduct further metallurgical test work, mine planning and environmental studies over the next 12 to 18 months.

3. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated interim financial statements for the six months ended June 30, 2013 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, “Interim Financial Reporting”. The disclosures provided are incremental to those included with the annual financial statements. Certain information and disclosures included in the interim financial statements are condensed or not disclosed as they are only disclosed on an annual basis. These consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012.

b) Basis of measurement

The financial statements have been presented on a historical cost basis except where noted in the accounting policies.

c) Functional and presentation currency

The financial statements are presented in Mkango’s functional currency, which is the United States dollar.

d) Use of estimates, judgement and measurement uncertainty

The preparation of the interim financial statements requires management to make estimates and use judgement. Accordingly, actual results could differ from estimated amounts as future confirming events occur. The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended December 31, 2012.

MKANGO RESOURCES LTD

Notes to the Consolidated Interim Financial Statements
For the three and six months ended June 30, 2013 and 2012

4. SIGNIFICANT ACCOUNTING POLICIES

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2013. Adopting these standards is expected to have minimal or no impact on Mkango's financial statements. IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IAS 1 *Presentation of Financial Statements*, IAS 19 *Employee Benefits* and IAS 32 *Financial Instruments: Presentation*.

5. RESTRICTED CASH

The Malawi Revenue Authority, customs and excise division ("MRA"), required a \$3,972 bank guarantee from the Company in order to allow equipment to be imported into the country for its Stage 2 drilling program. Historically the Company's importer was the guarantor, but as a result of changes made by the MRA, this role is now limited to banks and insurance companies.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2011	\$ 10,020	\$ (1,245)	\$ 8,775
Less Depreciation		(1,231)	(1,231)
Balance at June 30, 2012	10,020	(2,476)	7,544
Less Depreciation	-	(1,231)	(1,230)
Balance at December 31, 2012	10,020	(3,707)	6,313
Less Depreciation	-	(1,231)	(1,231)
Balance at June 30, 2013	\$ 10,020	\$ (4,938)	\$ 5,082

7. RELATED PARTY TRANSACTIONS

For the six months ended June 30, 2013, the Company recorded \$230,454 (2012 - \$280,424) for key management fees and related costs. Included in accounts payable and accrued liabilities at June 30, 2013, was \$23,735 (2012 - \$25,992) due to a related party and officers. The amounts owed are unsecured, due on demand and non-interest bearing.

Key management remuneration to directors and executives

	2013	2012
Salary	\$ 173,074	\$ 159,856
Share based awards	-	153,665
Total Compensation	\$ 173,074	\$ 313,521

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.

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Notes to the Consolidated Interim Financial Statements
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8. SHARE CAPITAL (continued)

	Ref	Number	USD
Balance at December 31, 2010		37,376,188	\$ 5,606,017
Stock options exercised	(i)	66,667	24,583
Share issue costs refunded		-	1,476
Balance at December 31, 2011 and 2012		37,442,855	\$ 5,632,076
Non-brokered offering	(ii)	4,285,715	730,000
Brokered offering	(iii)	8,836,033	1,523,631
Share issue costs			(137,168)
Broker warrants	(iii)		(16,614)
Warrants valuation – March 1, 2013	(b)		(123,732)
Warrants valuation – April 11, 2013	(b)		(334,704)
Balance at June 30, 2013		50,564,603	\$ 7,273,489

- (i) On October 31, 2011, 66,667 stock options were exercised at US\$0.369 for a cash payment of US\$24,583.
- (ii) On March 1, 2013, 4,285,715 Units were issued to Leo Mining and Exploration Limited ("Leominex") at a price of C\$0.175 per Unit for gross cash proceeds of US \$730,000. Leominex 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 both companies.

The Company paid US\$44,286 in share issue costs for legal and regulatory exchange filing fees, directly related to the non-brokered offering.

Each Unit consists of one common share and one-half common share purchase warrant ("Warrant"). 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. Where the closing price of the common shares on the TSX Venture Exchange equals or exceeds C\$0.40 for 20 consecutive trading days following the date that is four months and one day after the date of issuance of the Warrants, the Company shall have the right to require conversion of the Warrants at the exercise price upon 30 days' notice.

The securities issued have a hold period of four months and one day from the closing date.

- (iii) On April 11, 2013, 8,836,033 Units of the Company were issued at a price of C\$0.175 per Unit for gross cash proceeds of US\$1,523,631. Each Unit consists of one common share and one-half common share purchase warrant ("Warrant"). 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. Where the closing price of the common shares on the TSX Venture Exchange equals or exceeds C\$0.40 for 20 consecutive trading days following the date that is four months and one day after the date of issuance of the Warrants, the Company shall have the right to require conversion of the Warrants at the exercise price upon 30 days' notice.

The Company paid C\$97,638 (US\$92,882) in share issue costs for legal and regulatory exchange filing fees, directly related to the non-brokered offering.

The Company issued 431,266 broker warrants in connection with the Financing. Each broker warrant entitles the holder to acquire one Unit for C\$0.175 for a period of 12 months following the closing date of the financing. Where the closing price of the common shares of the Company on the TSX Venture Exchange equals or exceeds C\$0.40 for 20 consecutive trading days following the date that is four months and one day after the date of issuance of the broker warrants, the Company shall have the right to require conversion of the broker warrants at the exercise price upon 30 days' notice.

The cost of the broker warrants is valued at US\$16,614 using the Black-Scholes pricing model.

The securities issued under the private placement have a hold period of four months and one day from the closing date.

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8. SHARE CAPITAL (continued)

b) Warrants

As the exercise price of the share purchase warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the 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 CAD	Years	Number of Warrants	USD Fair Value
Balance at December 31, 2012	\$ -	-	-	\$ -
Warrants issued – March 1, 2013	\$ 0.35	0.7	2,142,858	123,732
Warrants issued – April 11, 2013	\$ 0.35	0.8	4,418,017	334,704
Change in fair value – June 30, 2013				152,160
Balance at June 30, 2013	\$ 0.35	0.8	6,560,875	\$ 610,596

The fair value of each warrant issued is fair valued 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 31, 2013	June 30, 2013
Risk free interest rate	1.02%	1.12%
Expected volatility	118%	206%
Share price	\$ 0.20	\$ 0.16
Foreign exchange rate	1.0167	1.0512

c) Share based payments

The Company has a rolling stock option 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 compensation expense relating to stock options that have been recognized in the consolidated interim statement of comprehensive loss for the three and six months ended June 30, 2013 is \$12,188 and \$21,520 respectively (2012 - \$67,443 and \$157,600 respectively). The corresponding amount has been recognized in contributed surplus. The options vest over a variety of terms ranging from 12 to 18 months.

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

	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Contractual Life Remaining (years)
Balance at December 31, 2010	200,000	\$0.38	200,000	0.5
Granted - January 17, 2011	2,350,000	0.50	2,350,000	7.5
Granted - June 16, 2011	62,500	0.65	62,500	0.9
Granted - June 2011	330,000	0.55	330,000	7.9
Options exercised - August 2011	(66,667)	0.38	(66,667)	-
Balance at December 31, 2011	2,875,833	0.50	1,457,708	7.1
Granted - December 10, 2012	200,000	0.50	100,000	2.5
Balance at June 30, 2013 and December 31, 2012	3,075,833	\$0.50	2,975,833	6.8

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8. SHARE CAPITAL (continued)

On December 10, 2012, the Company granted 200,000 stock options to a consultant. The options are exercisable at \$0.50 per share until December 10, 2015 and fully vest by December 10, 2013.

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:

Issued,	December 10, 2012
Risk free interest rate	1.13%
Expected life	3 years
Expected volatility	206%
Forfeiture rate	5%

9. FINANCIAL INSTRUMENTS

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

- 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.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and accrued liabilities and amount due to related party approximate their fair value due to their short term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value.

Financial risk management

The Company's Board of Directors 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 presentation 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 UK Pound Sterling. The Company raised equity in the Canadian dollar in 2010 and 2013 and has sufficient working capital to fund 12 to 18 months of expenditures denominated in the United States dollar. These currencies represent 90% of the Company's expenditures. The Company also incurs approximately 10% of its expenditures in the Malawi Kwacha. The Kwacha is subject to currency fluctuations, which may adversely affect the Company's financial position. In order to mitigate this risk, the Company holds the minimum funds required to fund its monthly obligations, in the Malawi Kwacha.

As at June 30, 2013 and 2012, the following balances were held by the Company:

	As at June 30,	
	2013	2012
Canadian dollar	\$ 792,585	\$ 49,652
United States dollar	630,872	1,077,024
United Kingdom Sterling	-	4,204
Malawi Kwacha	4,382	6,086
	<u>\$ 1,427,839</u>	<u>\$ 1,136,966</u>

MKANGO RESOURCES LTD

Notes to the Consolidated Interim Financial Statements
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9. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

Liquidity risk

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

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than the fair value; or
- The Company may be unable to settle or recover a financial asset at all. The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

The Company manages its liquidity risk by maintaining adequate cash and cash equivalents. The Company is actively seeking additional funding to improve its exposure to liquidity risk. The Company continually monitors its actual and forecast cash flows to ensure that there are adequate reserves to meet the maturing profiles of its financial assets and liabilities.

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

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	\$ 146,452	\$ 146,452

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 a refund due from a vendor.

10. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. On January 20, 2013 the Phalombe License for the Songwe property was renewed. The license was issued by the Malawi Government and will be renewed on a two year rolling basis, henceforth. The future spending commitments for exploration with the Government of Malawi have increased to 150,000,000 Kwacha (foreign exchange rate MWK327):

Exploration commitments	\$ 458,716
Ground rent	39,235
Total commitment	\$ 497,951

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, initially. The license will be renewed effective September 2013 on a two-year rolling basis, henceforth. The Company has not undertaken any activity on this licence area to date. The future spending commitments for exploration expenses with the Government of Malawi are as follows:

Exploration commitments	\$ 152,905
Ground rent	14,312
Total commitment	\$ 167,217

The Company expects to use the funds received from the Financing to meet these commitments.

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Notes to the Consolidated Interim Financial Statements

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11. CAPITAL MANAGEMENT

The Company's total capital resources, as at June 30, 2013, are \$749,741, which consists of total equity. The Company recently raised funds through an equity issue, which closed in two tranches, on March 1, 2013 and April 11, 2013. It is anticipated that these additional funds will meet working capital requirements for the next 12 to 18 months. 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.

12. SUBSEQUENT EVENTS

On July 11, 2013, the Company announced that its principal shareholder, Leominex, which owns approximately 48% of Mkango's issued and outstanding shares, had entered into a non-binding term sheet in respect of its acquisition (the "Transaction") by Forte Energy NL ("Forte"). A special committee of the board, consisting of the three independent directors of the Company who are not shareholders of Leominex, is negotiating a relationship agreement with Leominex and Forte to protect the interests of Mkango's shareholders. The completion of the Transaction will be conditional upon, among other things, approval of the Company's disinterested shareholders and approval of the TSX Venture Exchange.