MKANGO RESOURCES LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Management's Discussion and Analysis ("MD&A") of Mkango Resources Ltd., formerly named Alloy Capital Corp. ("Mkango" or the "Company") should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2012 and the consolidated interim financial statements for the three and six months ended June 30, 2013 and 2012. 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 August 29, 2013.

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 Company is 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 facts 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 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.

Mkango is a rare earth and associated minerals exploration and development company with a portfolio of properties in the Republic of Malawi, Africa. The Company's headquarters are in Calgary, Alberta, Canada.

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. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated interim financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

The Company is in the process of exploring and developing its mineral interests. The recoverability of the mineral interests is dependent upon the existence of an economically recoverable mineral resource, the ability of the Company to obtain necessary financing to complete the development of such mineral resources, and upon future profitable production. The operations of the Company for the next 12 to 18 months will be funded by the equity raised during 2013.

HIGHLIGHTS

As of June 30,	2013	2012
Cash used by operations	$ (970,387)	$ (2,584,136)
Cash from financing activities	2,116,463	-
Total comprehensive loss attributable to common shareholders	(1,234,526)	(2,030,726)
Loss per share - basic and diluted	$ (0.03)	$ (0.05)
Weighted average common shares outstanding	44,142,286	37,442,855
Evaluation and exploration spending:		
Malawi	305,375	1,781,976

	June 30, 2013	December 31, 2012
Current assets	1,501,707	441,214
Current liabilities (account payables and accrued liabilities)	146,452	142,807
Working capital	$ 1,355,255	$ 298,407

SUMMARY OF QUARTERLY RESULTS

	2013		**2012**				**2011**	
Total Operations	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	$ -	$ -	$ (13)	$ (500)	$ (418)	$ 3,304	$ 5,289	$ 1,273
Expenses	657,872	424,494	524,263	465,617	832,006	1,877,932	320,517	1,507,771
Warrant fair value loss (gain)	158,078	(5,918)	180	(147,313)	(398,881)	(277,445)	(555,098)	(179,633)
Gain on loan forgiven	-	-	15,343	-	-	-	-	-
Net revenue (loss) for period	(815,950)	(418,576)	(509,113)	(318,804)	(433,543)	(1,597,183)	239,870	(1,326,865)
Loss per share - basic and diluted	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)	$ 0.01	$ (0.04)
Total assets	1,506,789	1,070,915	447,527	720,299	1,350,961	2,481,849	3,963,160	4,319,642

Total expenses for the three months ended June 30, 2013 were $657,872 (2012 - $832,006). During the three months ended June 30, 2013, costs were incurred as a result of marketing and administering the issuance of equity, undertaking regional exploration in the Thambani and Phalombe licenses, progressing environmental studies in relation to the Songwe project and ongoing mineralogical studies and metallurgical test work. The warrants issued as part of the Financing, created a fair value loss of $158,078 (2012 gain of $398,881) when they were fair valued at June 30, 2013. During the three months ended June 30, 2012, the majority of the expenses were incurred by the Stage 2 drilling program activities.

Total expenses for the three months ended March 31, 2013 were $424,494 (2012 - $1,877,932). During the three months ended March 31, 2013, costs were incurred as a result of marketing and administering the issuance of equity. The first tranche closed March 1, 2013 and the second tranche closed April 11, 2013. The warrants issued in conjunction with the March 1, 2013 close created a fair value gain of $5,918 when they were revalued at March 31, 2013. During the three months ended March 31, 2012, the majority of the expenses were incurred by the Stage 2 drilling program activities.

Total expenses for the three months ended December 31, 2012 were $524,263 (2011 - $320,517). During the three months ended December 31, 2012, exploration and evaluation expenses of $370,315 (2011 - $9,274) were recognized. The significant increase during the period was primarily due to the restatement of the December 31, 2011 financial statements for a deposit paid to a vendor in 2011, which was recorded as an expense. The reclassification resulted in a $209,680 reduction of exploration and evaluation expenses for the period ended December 31, 2011 as a result of the reclassification of the expense to prepaid and deposits. The reclassification resulted in an increase of exploration and evaluation expenses of $139,324 for the period ended December 31, 2012 compared to the period ended December 31, 2011. During the three months ended December 31, 2012, general and administrative costs of $211,063 (2011 - $344,267) were recognized. The Company recognized a stock based compensation expense of $9,206 (2011 - $76,123 reduction), $180 gain on the revaluation of Warrants (2011- $737,851 gain), depreciation expense of $616 (2011 - $302) and a foreign exchange gain on translation of $52,034 (2011 - $22,430). Cash consumption during the three months ended December 31, 2012 was due to the activities required to complete the laboratory analysis of core samples from the Stage two drilling program and to complete the Company's National Instrument 43-101, the "Technical Report". Cash consumption during the comparative period ended December 31, 2011 was due primarily to activities associated with initiating the Stage 2 drilling program.

Total expenses for the three months ended September 30, 2012 were $465,617 (2011 - $1,507,771). During the three months ended September 30, 2012, exploration and evaluation expenses of $96,046 (2011 - $918,725) were recognized. During the three months ended September 30, 2012, general and administrative costs of $246,475 (2011 - $166,706) were recognized. The Company recognized a stock based compensation expense of $24,641 (2011 - $280,521), $147,313 gain on the revaluation of Warrants (2011- $184,131 loss), depreciation expense of $615 (2011 - nil) and a foreign exchange gain on translation of $80,983 (2011 - $325,007). Expenditures during the three months ended September 30, 2012 were due primarily to the Stage 2 drilling program, which was completed in July, 2012. Expenditures during the comparative period ended September 30, 2011 was due primarily to the Stage 1 drilling program, which was active during the entire third quarter.

Total expenses for the three months ended June 30, 2012 were $832,006 (2011 - $1,394,269). During the three months ended June 30, 2012, exploration and evaluation expenses of $449,565 (2011 - $728,636) were recognized During the three months ended June 30, 2012, general and administrative costs of $341,399 (2011 - $223,244) were recognized. The Company recognized a stock based compensation expense of $67,443 (2011 - $481,384), $398,881 gain on the revaluation of Warrants (2011- $1,267,454 loss), depreciation expense of $616 (2011 - nil) and a foreign exchange gain on translation of $28,791 (2011 - $37,634). Expenditures during the three months ended June 30, 2012 was due primarily to the Stage 2 drilling program. Expenditures during the comparative period ended June 30, 2011 was due primarily to the Stage 1 drilling program

Total expenses for the three months ended March 31, 2012 were $1,877,932 (2011 - $936,784). During the three months ended March 31, 2012, exploration and evaluation expenses of $1,332,411 (2011 - $415,326) were recognized During the three months ended March 31, 2012, general and administrative costs of $366,321 (2011 - $90,860) were recognized. These costs were also significantly higher for the three months ended March 31, 2012, as a result of the administrative support and supplies required for the drilling program. For the same period ended March 31, 2011, the costs were lower as the Company was initiating the start-up phase of the first diamond drilling program. The Company recognized a stock based compensation expense of $90,157 (2011 - $593,594), $277,445 gain on the revaluation of Warrants (2011 - $1,267,454 loss), depreciation expense of $615 (2011 nil) and a foreign exchange loss on translation of $88,428 (2011 - $157,771 gain). Expenditures during the three months ended March 31, 2012 was due primarily to the Stage 2 drilling program.

Total expenses for the three months ended December 31, 2011 were $320,517 (2010 - $320,478). During the three months ended December 31, 2011, exploration and evaluation expenses of $9,274 (2010 - $147,727) were recognized which included costs associated with initiation of the Company's second diamond drilling program. The significant decrease during the period was primarily due to the restatement of the December 31, 2011 financial statements for a deposit paid to a vendor in 2011which was recorded as an expense. The reclassification resulted in a $209,680 reduction of exploration and evaluation expenses for the period ended December 31, 2011 as a result of the reclassification of the expense to prepaid and deposits. During the three months ended December 31, 2011, general and administrative costs of $344,267 (2010 - $214,475) were recognized. For the three months ended December 31, 2011, these expenditures were the result of increased exploration activities in Malawi. For the same period ended December 31, 2010, the costs were incurred as a result of closing the reverse takeover transaction. The Company recognized a reduction of its stock based compensation of $76,123 (2010 - nil), $737,851 (2010 - nil) gain on the revaluation of Warrants, depreciation expense of $302 (2010 - nil) and a foreign exchange loss on translation of $22,430 (2010 - nil).

Total expenses for the three months ended September 30, 2011 were $1,507,771 (2010 - $112,917). During the three months ended September 30, 2011, exploration and evaluation expenses of $918,725 (2010 - $84,062) were recognized which included costs associated with completion of the Company's first diamond drilling program, assaying costs and other exploration related expenses. During the three months ended September 30, 2011, general and administrative costs of $166,706 (2010 - $28,855) were recognized and were the result of increased exploration activities in Malawi. In addition, the Company recognized $280,521 of stock based compensation, $184,131 gain on the revaluation of Warrants, depreciation expense of $943 and a foreign exchange gain on translation of $325,007.

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 June 30, 2013, 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 the Thambani license was also granted. Each of the Company's mineral properties are at the early stage of exploration.

The Company incurred a net operating loss of $815,950 and $1,234,526 for the three and six months ended June 30, 2013 respectively (2012 - $433,543 and $2,030,726 respectively). The expenditures for the six months ended June 30, 2013 were due primarily to the activities required to administer the Financing, initiate the Environment Studies program and to conduct further metallurgical test work. The expenditures for the six months ended June 30, 2012, were due primarily to the activities required to undertake the Stage 2 drilling program.

Total assets increased from $447,527 to $1,506,789 for the six months ended June 30, 2013, due to the equity raised through the issuance of common shares. The Company raised US$2,253,631 as of June 30, 2013, through the Financing which will be used to fund exploration programs, metallurgical scoping and pre feasibility studies on the Songwe Hill property. The Financing closed in two tranches in 2013. The first tranche closed March 1, 2013 and the final tranche closed on April 11, 2013.

The Company's expenditures are primarily denominated in the United States dollar ("USD"). In order to mitigate the negative impact of foreign exchange rates on converting its equity raised in Canadian dollars to the USD, the Company will convert a significant portion of the funds to USD when foreign exchange rates are favorable.

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 has indicated strong geological potential for rare earths ("REE's") and other minerals.

1. SONGWE HILL

Through its ownership of Lancaster, the Company holds a 100% interest in an exclusive prospecting license over an area of 1,283 km2 in southeast Malawi (the "Phalombe License"). 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.

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.

The Company's corporate strategy with respect to Songwe Hill is to carry out further metallurgical test work, mine planning, environmental studies and other aspects required to move the Songwe Hill project through the pre-feasibility stage, in addition to regional exploration.

During the six months ending June 30, 2013, the Company was focused on scoping metallurgical test work, regional exploration and closing the Financing which will fund metallurgical test work, mine planning, environmental studies and other aspects required to move the Songwe Hill project through the pre-feasibility stage in addition to regional exploration and general corporate purposes.

The drilling programs completed in 2011 and 2012, focused on an area measuring approximately 350 by 100 metres 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 metres to a maximum vertical depth of approximately 350 metres. 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 (REE) 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
Mt – million tonnes
In-situ – no geological losses applied

The Company's long-term continuing operations are dependent on its ability to secure equity and/or debt financing with which it intends to maintain its proposed mineral exploration programs on the Songwe Hill property. The circumstances that could affect the company's ability to secure equity and/or debt financing that are reasonably likely to occur are, without limitation, the state of the capital markets and the prevailing market prices for commodities, in particular the prevailing market prices for REE. The outlook in relation to these factors could change at any time and negatively affect the Company's operations and business. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

2. THAMBANI MWANZA DISTRICT

Lancaster was granted an additional exploration license by the Malawi 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 Company has completed initial reconnaissance exploration in the license area and follow up exploration is underway, comprising of ground radiometric surveys, geological mapping and sampling. Reconnaissance work has identified a number of areas with potential for uranium, zircon, corundum and niobium.

EXPENDITURES

The Company's principal activities require expenditures which include both exploration and general and administrative expenses. The following discussion describes the general and administrative expenditures in greater detail.

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Administrative expenses	$ 192,625	$ 223,495	$ 390,893	$ 334,204
Investor communication expenses	85,935	27,045	85,935	64,599
Malawi field office expenses	73,353	96,759	156,931	252,400
Legal fees	32,259	387	58,131	46,450
Audit fees	-	(209)	10,785	10,067
Stock option expense	12,188	67,443	21,520	157,600
Depreciation	616	616	1,231	1,231
Mineral exploration expenditures				
Environmental studies	155,069	-	207,281	-
Drilling	-	(166,019)	-	670,851
Camp equipment and travel	-	380,410	33,128	591,805
Technical review and analysis	63,467	263,644	64,965	356,506
Consulting fees	-	34,548	-	162,814
Total	$ 615,512	$ 928,119	$ 1,030,801	$ 2,648,527

Total expenditures of $615,512 and $928,119 were recognized for the three months ended June 30, 2013, and 2012, respectively. Total expenditures of $1,030,801 and $2,648,527 were recognized for the six months ended June 30, 2013, and 2012, respectively. During the three and six months ended June 30, 2013, costs were incurred as a result of marketing and administering the Financing, undertaking regional exploration in the Thambani and Phalombe licenses, progressing environment studies in relation to the Songwe project and ongoing mineralogical studies and metallurgical test work. In comparison, expenditures incurred during the three and six months ended June 30, 2012, were due to activities related to the Stage 2 drilling program.

General and administrative expenses of $192,625 and $223,495 were recognized for the three months ended June 30, 2013 and 2012, respectively. General and administrative expenses of $390,893 and $334,204 were recognized for the six months ended June 30, 2013 and 2012, respectively. The general and administrative costs are associated with administering the Financing, managing a publically traded company and operating the local office and exploration camp in Malawi. General and administrative costs include salaries, consulting fees, travel, public disclosure expenses, investor relations expenses and directors' and officers' insurance.

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	-	(1,230)	(1,230)
Balance at December 31, 2012	10,020	(3,706)	6,313
Less Depreciation	-	(1,231)	(1,231)
Balance at June 30, 2013	$ 10,020	$ (4,937)	$ 5,082

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

At June 30, 2013, the Company had a working capital surplus of $1,355,255 (December 31, 2012 - $298,407). The Company completed its Qualifying Transaction on December 20, 2010 and raised gross proceeds of C$7,625,026. The Company has raised a further US$2,253,631 as of June 30, 2013 through a second equity issue. At June 30, 2013, the Company had a cash balance of $1,427,839, which included restricted cash of $3,972. The original funding was used to fund the exploration programs in Malawi. Funding provided by the second equity issue will be used to fund further metallurgical test work, mine planning, environmental studies and other aspects required to move the Songwe Hill project through the pre-feasibility stage in addition to regional exploration and general corporate purposes. Management believes that the funds available will generate sufficient cash flow to maintain the Company's ability to meet its short and medium term objectives and milestones.

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.

ISSUED AND OUTSTANDING SHARE INFORMATION

As at the date of this report, the Company had 50,564,603 Common Shares and 6,992,140 warrants issued. The warrants are subject to a four-month plus one day, holding period. The Company has 3,075,833 stock options issued, of which, 2,975,833 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, 2012.

BUSINESS RISKS

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Mkango's operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

The Company is presently pursuing direct investments in international mining projects. There is no assurance that exploration prospects will be granted in foreign jurisdictions where the Company is making applications, nor is there assurance the exploration efforts will be successful. If the Company is successful in obtaining exploration prospects in foreign jurisdictions, additional capital will be required to execute the exploration programs.

Rare earth element and related mineralogy exploration, development, production and marketing operations inherently have a number of business risks and uncertainties, including the uncertainty of finding new reserves, the volatility of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations.

The Company manages these 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.

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.

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.

Credit risk
The Company has negligible accounts receivable.

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

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 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.

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 as of January 20, 2013 was renewed on a two-year rolling basis, henceforth. The future spending commitments for the exploration rights with the Government of Malawi based on a foreign exchange rate for the local currency to US dollars of MK327 are as follows:

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 km^2 in Thambani, Mwanza District, Malawi. The license was issued by the Malawi Government on a three-year basis, originally, and as of September 2013 will be renewed on a two-year rolling basis, henceforth. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows:

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

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.

SUBSEQUENT EVENTS

On July 11, 2013, the Company announced that its principal shareholder, Leo Mining and Exploration Limited ("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.

DIRECTORS AND OFFICERS AS AT JUNE 30, 2013

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