Consolidated Interim Financial Statements of

MKANGO RESOURCES LTD

For the three months ended March 31, 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 months ended March 31, 2013 and 2012.

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

As at	Notes	**March 31, 2013**	December 31, 2012
ASSETS			
Current			
Cash and cash equivalents		**$ 933,871**	$ 320,766
Restricted cash	4	**3,357**	4,018
Accounts receivable		**64,974**	5,964
Prepaid and deposit		**63,015**	110,466
Total currents assets		**1,065,217**	441,214
Property and equipment	5	**5,698**	6,313
Total assets		**1,070,915**	447,527
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**273,692**	142,807
Warrants - derivative financial instruments	7(b)	**117,814**	-
Total current liabilities		**391,506**	142,807
EQUITY			
Share capital	7(a)	**6,194,058**	5,632,076
Subscriptions received	7(a)	**221,951**	-
Contributed surplus	7(c)	**1,937,656**	1,928,324
Accumulated deficit		**(7,674,256)**	(7,255,680)
Total equity		**679,409**	304,720
Total liabilities and equity		**$ 1,070,915**	$ 447,527
Going concern	2		
Commitments	9		
Subsequent events	11		

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 March 31, 2013	2012
Expenses			
General and administrative		**$ 318,503**	$ 366,321
Mineral exploration expenditures		**86,839**	1,332,411
Depreciation	5	**615**	615
Share based payments	7(c)	**9,332**	90,157
Loss before undernoted		**415,289**	1,789,504
Other items			
Interest income		**-**	(3,304)
Unrealized (gain) loss on revaluation of warrants	7(b)	**(5,918)**	(277,445)
Realized foreign exchange (gain) loss		**(339)**	-
Unrealized foreign exchange (gain) loss		**9,544**	-
Foreign exchange (gain) loss on translation		**-**	88,428
Total comprehensive loss attributable to common shareholders		**$ (418,576)**	$ (1,597,183)
Net loss per share - basic and diluted		**$ (0.01)**	$ (0.04)
Weighted average shares outstanding basic and diluted		**38,871,426**	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	Three Months Ended March 31, 2013	2012
Cash flow from operating activities			
Loss for the period		**$ (418,576)**	$ (1,597,183)
Adjustments			
Share based payments	7(c)	**9,332**	90,157
Unrealized gain (loss) on revaluation of warrants	7(b)	**(5,918)**	(277,445)
Depreciation	5	**615**	615
Foreign exchange loss (gain)		**9,205**	88,428
Change in non-cash operating capital			
Accounts receivable and prepaid		**(11,560)**	(16,568)
Accounts payable and accrued liabilities		**122,342**	499,820
Cash used by operating activities		**(294,560)**	(1,212,176)
Cash flow from financing activities			
Issue of share capital, net of issue costs		**685,714**	-
Subscriptions received		**221,951**	-
Cash from financing activities		**907,665**	-
Effect of exchange rate changes on cash		**(661)**	(88,428)
Change in cash		**612,444**	(1,300,604)
Cash at the beginning of the period		**320,766**	3,739,420
Cash reclassified to restricted cash		**4,018**	-
Cash at the end of the period		**$ 937,228**	$ 2,438,816

Refer to accompanying notes to the consolidated interim financial statements.

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

	Share capital	Subscriptions received	Contributed Surplus	Deficit	Total
Balance at December 31, 2011	$ 5,632,076	$ -	$ 1,736,877	$ (4,397,037)	$ 2,971,916
Share based payments	-		90,157	-	90,157
Total comprehensive loss for the period	-		-	(1,597,183)	(1,597,183)
Balance at March 31, 2012	$ 5,632,076	$ -	$ 1,827,034	$ (5,994,220)	$ 1,464,890
Share based payments	-		101,290	-	101,290
Total comprehensive loss for the period	-		-	(1,261,460)	(1,261,460)
Balance at December 31, 2012	$ 5,632,076	$ -	$ 1,928,324	$ (7,255,680)	$ 304,720
Common shares issued	730,000				730,000
Subscriptions received		221,951			221,951
Share issue costs	(44,286)				(44,286)
Warrant valuation	(123,732)				(123,732)
Share based payments			9,332		9,332
Total comprehensive loss for the period				(418,576)	(418,576)
Balance at March 31, 2013	$ 6,194,058	$ 221,951	$ 1,937,656	$ (7,674,256)	$ 679,409

Refer to accompanying notes to the consolidated interim 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 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 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.

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 were authorized for issuance by the Board of Directors of the Company on May 30, 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 $418,576 for the three months ended March 31, 2013 (2012 - $1,597,183) and has an accumulated deficit of $7,674,256 as of March 31, 2013 (March 31, 2012 - $6,190,880). 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. 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 to 18 months will be funded by a private placement ("Financing"), which closed in two tranches in 2013. The first tranche closed on March 1, 2013 and the second tranche closed on April 11, 2013 (Note 11).

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 settle 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 AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements for the three months ended March 31, 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 consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

Recent accounting pronouncements and amendments effective January 1, 2013 have no impact on the Company's consolidated financial statements.

4. RESTRICTED CASH

The Malawi Revenue Authority, customs and excise division ("MRA"), required a $3,357 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.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2010	$ 288	$ -	$ 288
Additions	9,732	-	9,732
Less Depreciation	-	(1,245)	(1,245)
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	-	(615)	(615)
Balance at March 31, 2013	$ 10,020	$ (4,322)	$ 5,698

6. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2013, the Company recorded $75,000 (2012 - $90,327) for key management fees and related costs. Included in accounts payable and accrued liabilities at March 31, 2013, was $32,289 (2012 - $36,527) due to officers. The amounts owed are unsecured, due on demand and non-interest bearing.

7. SHARE CAPITAL

a) Common Shares

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

	Ref	Number	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) (iii)	4,285,715	730,000
Share issue costs			(44,286)
Warrants valuation	(b)		(123,732)
Balance at March 31, 2013		41,728,570	$6,194,058

(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 ("Leo Minex") at a price of C$0.175 per Unit for gross cash proceeds of C$750,000 (US$730,000). Leo Minex 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 $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.

7. **SHARE CAPITAL (continued)**

(iii) During the three months ended March 31, 2013, the Company received C$226,711 (US$221,951) in subscription receipts for which 1,295,404 common shares and 647,702 common share purchase warrants were to be issued. On April 11, 2013 the subscription receipts were converted into common shares and common share purchase warrants. (Note 11).

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 under 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	0.9	2,142,857	123,732
Change in fair value				
Warrants issued - March 1, 2013				(5,918)
Balance at March 31, 2013	$ 0.35	0.9	2,142,857	$ 117,814

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 months ended March 31, 2013 and 2012 is $9,332 and $90,157 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	0.8
Granted - January 17, 2011	2,350,000	0.50	2,350,000	7.8
Granted - June 16, 2011	62,500	0.65	62,500	1.2
Granted - June 2011	330,000	0.55	330,000	8.2
Options exercised - August 2011	(66,667)	0.38	(66,667)	-
Balance at December 31, 2011	2,875,833	0.50	1,457,708	7.4
Granted - December 10, 2012	200,000	0.50	-	2.7
Balance at March 31, 2013	3,075,833	$0.50	2,875,833	7.1

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.

7. SHARE CAPITAL (continued)

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 31, 2012	December 31, 2011
Risk free interest rate	1.13%	3.25%
Expected life	3 years	10 years
Expected volatility	118%	95%
Forfeiture rate	5%	5%

8. 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, 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 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 March 31, 2013 and 2012, the following balances were held by the Company:

	As at March 31,	
	2013	2012
Canadian dollar	$ 82,521	$ 463,245
United States dollar	849,829	1,764,834
United Kingdom Sterling	-	199,742
Malawi Kwacha	4,878	10,995
	$ 937,228	$ 2,438,816

8. 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:

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.

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

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	$ 273,692	$ 273,692

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.

9. 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 MWK387):

Exploration commitments	$ 387,597
Ground rent	33,152
Total commitment	$ 420,749

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	$ 129,199
Ground rent	12,093
Total commitment	$ 141,292

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

10. CAPITAL MANAGEMENT

The Company's total capital resources, as at March 31, 2013, are $679,409, 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 (Note 11). 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.

11. SUBSEQUENT EVENT

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 C$1,546,306. 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 cash broker fees totalling C$75,471 and 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 securities issued under the private placement have a hold period of four months and one day from the closing date.

The funds raised through the Financing will be used for 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.