Consolidated Interim Financial Statements of

MKANGO RESOURCES LTD
(formerly Alloy Capital Corp.)
(Unaudited)

For the periods ended September 30, 2011 and 2010

Unaudited interim consolidated 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 interim consolidated financial statements for the nine months ended September 30, 2011 and 2010.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Interim Statement of Financial Position
Reported in US dollars

(Unaudited)

As at	Notes	**September 30, 2011**	December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash		**$ 4,279,173**	$ 7,840,140	$ -
Accounts receivable		**25,976**	21,188	-
Prepaid		**5,414**	-	-
Total currents assets		**4,310,563**	7,861,328	-
Property and equipment	7	**9,079**	288	-
Total assets		**4,319,642**	7,861,616	-
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**283,171**	801,445	-
Due to related party	8	**15,343**	405,449	225,234
Warrants – derivative financial instruments	9(b)	**1,359,633**	1,543,764	-
Total current liabilities		**1,658,147**	2,750,658	225,234
EQUITY (DEFICIENCY)				
Share capital	9(a)	**5,078,668**	5,053,668	1,000
Contributed surplus	9(c)	**2,270,501**	915,002	-
Accumulated deficit		**(4,687,674)**	(857,712)	(226,234)
Total equity		**$ 2,661,495**	$ 5,110,958	$ (225,234)
Total liabilities and equity		**$ 4,319,642**	$ 7,861,616	$ -

The consolidated interim financial statements were authorized for issue by the Board of Directors on November 28, 2011.

Approved on behalf of the Board:

(signed) "*Eugene Chen*"

Eugene Chen, Director

(signed) "*David Berg*"

David Berg, Director

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Interim Statement of Comprehensive Loss
Reported in US dollars

(Unaudited)

	Notes	THREE MONTHS ENDED September 30, 2011	2010	NINE MONTHS ENDED September 30, 2011	2010
Revenue					
Interest income		**$ 1,273**	$ -	**$ 8,862**	$ -
Expenses					
General and administrative		**166,706**	28,855	**480,810**	49,216
Mineral exploration expenditures		**918,725**	84,062	**2,062,687**	191,136
Share based payments	9(d)	**280,521**	-	**1,355,499**	-
		1,365,952	112,917	**3,898,996**	240,352
Loss before undernoted		**(1,364,679)**	(112,917)	**(3,890,134)**	(240,352)
Loan forgiveness		**-**	195,400	**-**	195,400
Unrealized gain on revaluation of warrants	9(b)	**184,131**	-	**184,131**	-
Realized foreign exchange gain (loss)		**(943)**	-	**5,643**	-
Foreign exchange gain on translation		**(325,007)**	-	**(129,602)**	-
Total comprehensive loss attributable to common shareholders		**(1,506,498)**	82,483	**(3,829,962)**	(44,952)
Net loss per share - basic and diluted		**$ (0.04)**	$ 82.48	**$ (0.10)**	$ (44.95)
Weighted average shares outstanding basic and diluted		**37,397,927**	1,000	**37,383,514**	1,000

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Interim Statement of Cash Flows
Reported in US dollars

(Unaudited)

	Note	THREE MONTHS ENDED September 30, 2011	2010	NINE MONTHS ENDED September 30, 2011	2010
Cash flow from operating activities					
Loss for the period		**$ (1,506,498)**	$ (112,917)	**$ (3,829,962)**	$ (240,352)
Adjustments					
Share based payments	9(d)	**280,521**	-	**1,355,499**	-
Unrealized gain on revaluation of warrants	9(b)	**(184,131)**	-	**(184,131)**	-
Depreciation		**883**	-	**941**	-
Unrealized foreign exchange gain		**325,007**	-	**129,602**	-
Change in non-cash operating capital					
Accounts receivable and prepaid		**(22,514)**	-	**(25,626)**	-
Accounts payable and accrued liabilities		**172,858**	46,417	**(518,274)**	66,417
Cash used by operating activities		**(933,874)**	(66,500)	**(3,071,951)**	(173,935)
Cash flow from financing activities					
Advances from related party		**-**	66,500	**24,602**	173,935
Repayment to related party		**-**	-	**(414,708)**	-
Cash from (used) by financing activities		**-**	66,500	**(390,106)**	173,935
Effect of exchange rate changes on cash		**(297,483)**	-	**(98,910)**	-
Change in cash		**(1,231,357)**	-	**(3,560,967)**	-
Cash at the beginning of the period		**5,510,530**	-	**7,840,140**	-
Cash at the end of the period		**$ 4,279,173**	$ -	**$ 4,279,173**	$ -

Refer to accompanying notes to the consolidated interim financial statements.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Interim Statement of Changes in Equity
Reported in US dollars

(Unaudited)

	Share capital	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	$ 1,000	$ -	$ (226,234)	$ (225,234)
Total comprehensive loss for the period	-	-	(44,952)	(44,952)
Balance at September 30, 2010	$ 1,000	$ -	$ (271,186)	$ (270,186)
Balance at December 31, 2010	$ 5,053,668	$ 915,002	$ (857,712)	$ 5,110,958
Share based payments	-	1,355,499	-	1,355,499
Stock options exercised	25,000	-	-	25,000
Total comprehensive loss for the period	-	-	(3,829,962)	(3,829,962)
Balance at September 30, 2011	**$ 5,078,668**	**$ 2,270,501**	**$ (4,687,674)**	**$ 2,661,495**

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 Limited ("Lancaster"). The articles of the Company were amended to change the name of the Company from Alloy Capital Corporation to Mkango Resources Ltd. Mkango's head office is located at 1400, 700 – 2nd Street SW, Calgary, Alberta Canada, T2P 4V5

Lancaster was incorporated under the laws of the British Virgin Islands on August 3, 2007.

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. 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 acquiring, exploring and developing its mineral interests. The recoverability of the amounts shown for mineral interests are 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 months will be funded by the equity raised during the share issuance which closed December 20, 2010.

3. REVERSE TAKEOVER

On December 20, 2010, Alloy completed its qualifying transaction by the acquisition of Lancaster. Under the terms of the Transaction, Alloy acquired all of the issued and outstanding shares of Lancaster in exchange for the issuance of 19,852,899 shares.

The Company looked for guidance under IAS-8 – Accounting policy changes in accounting estimates and errors as there is an absence of IFRS guidance that specifically applies to this transaction. IAS-8 states that in an absence of guidance under IFRS, management shall use its judgment in developing and applying an accounting policy. As such, the Company used guidance from Canadian standards.

Although Alloy is the legal issuer of the common shares, for accounting purposes Lancaster was considered the acquirer as the shareholder of Lancaster controlled the combined entity after the transaction. The 2009 figures on the consolidated balance sheet, operations and comprehensive loss and deficit and cash flows in this report are those of Lancaster.

As Alloy did not quality as a business, according to the definition in Emerging Issues Committee Abstract #124 – Definition of a Business, this reverse takeover transaction did not constitute a business combination; rather it was treated as an issuance of shares by Lancaster for the net monetary assets of Alloy followed by a recapitalization of Lancaster. The securities issued were valued at the fair value of the net assets of Alloy at the time of the transaction and were as follows:

Cash	$312,737
Other receivables	8,625
Current liabilities	(15,171)
Total net assets acquired	$306,191

Transaction costs in the amount of $416,139 were incurred in the completion of the Transaction. Under the provisions of EIC-10 – Reverse Takeover Accounting, these costs are to be charged to retained earnings to the extent of cash in the non-operating public company (Mkango), with the excess, if any, to be charged as an expense. At the time of the closing of the transaction Mkango had $312,737 in cash, therefore $103,402 was charged to expense, with $312,737 charged to retained earnings. Tax pools of $161,003 were also acquired resulting in a potential $40,251 deferred tax asset. No deferred tax asset will be recognized at this time since, based upon the historical taxable income of Alloy, it cannot be reasonably estimated if it is more likely than not that some or all of the deferred tax asset will be realized.

4. BASIS OF PRESENTATION

(a) Basis of presentation and measurement

The consolidated interim financial statements are presented in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is the first year the Company has presented its financial statements using IFRS. Historically, financial statements were prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). As required, a reconciliation has been prepared between Canadian GAAP and IFRS to illustrate the impact the change to IFRS has on the consolidated Company financial statements, refer is provided in note 15.

The consolidated interim financial statements are presented in the United States dollar.

The transaction between Lancaster and the Company was deemed a recapitalization takeover whereby Lancaster is considered the parent for accounting purposes. The consolidated financial statements are issued under the name of the legal parent, Mkango Resources Ltd, but are described as a continuation of the financial statements of the legal subsidiary, Lancaster.

In addition, these consolidated interim financial statements have been prepared using the accrual basis of accounting, except cash flow information.

(b) Statement of Compliance

These unaudited consolidated interim financial statements for the nine months ended September 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, and are in accordance with IFRS 1, First-time Adoption of IFRS. This is the third interim financial reporting period of the first fiscal year for which the Company has adopted IFRS. These unaudited interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in the December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. These consolidated interim financial statements are presented in United States dollars which is the Company's functional currency.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian Generally Accepted Accounting Principles ("GAAP") to those reported for those periods under IFRS. The reconciliations of equity at the date of transition was reported in the first quarter of 2011.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 28, 2011.

(c) Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis.

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

The preparation of the consolidated interim 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.

In preparing these consolidated interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS consolidated financial statements, and are outlined in:

- Note 9 - measurement of stock-based compensation

(f) New standards and interpretations not yet adopted

Consolidated Financial Statements

IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

Joint Arrangements

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

Disclosure of Interests in Other Entities

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

Fair Value Measurement

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 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. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

5. 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 interim financial statements.

(a) Principles of consolidation

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

(b) 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 cash generating units ("CGU") for impairment testing and categorized within property and equipment as mineral interests. Plant 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. For purposes of impairment testing, property and equipment assets categorized as mineral interests are grouped by CGU.

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 consolidated interim statement of comprehensive loss.

(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 interim 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 interim statement of comprehensive loss, as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets are 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. These estimates are reviewed by independent reserve engineers annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of minerals which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:
• a reasonable assessment of the future economics of such production;
• a reasonable expectation that there is a market for all or substantially all the expected mineral production; and
• evidence that the necessary production and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation test. The area of mineral delineation considered proven includes (a) that portion delineated by drilling and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on mineral delineation, the lowest known structural occurrence of minerals will determine the lower proved limit of the mine.

Office equipment is recorded at cost and is 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.

(c) 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 interim 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 consolidated interim 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.

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.

(d) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. 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.

(e) Foreign currency translation

The functional and presentation currency of Mkango and its subsidiary is the United States dollar. Assets and liabilities are translated into the presentation currency at the current exchange rate in effect at the reporting date. Income and expense items are translated at the exchange rate in effect at the date of the transaction or, where the exchange rate does not fluctuate significantly, an average rate which approximates the actual rate in effect at the date of the transaction.

Exchange differences arising upon consolidation between the transactional and functional currency, if any, are recognized as an expense in unrealized foreign exchange gain (loss). Exchange differences arising upon consolidation between the functional and presentation currency, if any, are recognized in other comprehensive income and accumulated in equity in a translation of foreign operations account.

(f) 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 at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet 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.

(g) 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 earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments.

(h) Share based payments

The Company has issued options to directors, officers, employees and non-employees to purchase common shares. The fair value of options on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. The fair value of options to non-employees is 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 actual number of options that vest.

(i) Financial instruments

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”), 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 is designated as FVTPL. Accounts receivable is classified as loans and receivables. Accounts payable and accrued liabilities and due to related party are classified as other financial liabilities.

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and due to related party approximates the carrying value due to the short-term nature of these instruments. The Company does not hold any other financial instruments.

(j) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits.

(k) 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
- 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.

6. EXPLORATION AND EVALUATION ASSETS

The exploration and evaluation assets at September 30, 2011 were $Nil (2010 - $Nil). The Company was awarded a 100% interest in an exclusive prospecting license over an area of 1,283 km2 in southeast Malawi (the "Phalombe License") on January 21, 2010. The 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 license have been met.

Lancaster was granted an additional exploration license by the Malawi Minister of Natural Resources, Energy and Environment on September 10, 2010 for of an area of 468 km² in Thambani, Mwanza District, Malawi.

All costs associated with evaluation of these properties are expensed until it is determined that commercially viable reserves are present and development commences.

7. PROPERTY AND EQUIPMENT

		Amount
Balance at January 1, 2010	$	-
Additions		288
Balance at December 31, 2010		288
Additions		9,732
Less Depreciation		(941)
Balance at September 30, 2011	$	9,079

During the three months ended September 30, 2011, the Company purchased a vehicle for use at the exploration camp in Malawi, Africa.

8. RELATED PARTY TRANSACTIONS

All expenses of Lancaster from incorporation to December 20, 2010, were paid by the former shareholder, Leo Mining, on behalf of the Lancaster. As of September 30, 2011 Lancaster owed Leo Mining $15,346. During the third quarter of 2010, the former shareholder, Leo Mining, forgave $195,401 of the outstanding loan, which represented the amount spent on the abandoned Congo project during 2007 and 2008. During 2011, the Company has repaid $414,708 of the funds advanced by the related party. The funding received by Lancaster from Leo Mining was spent as follows:

Opening balance, January 1, 2010	$	225,234
Loan forgiven		(195,401)
Mineral exploration expenditures		213,738
General & administrative		161,878
Closing balance, December 31, 2010	$	405,449
Loan repayment		(414,708)
General & administrative		24,602
Closing balance, September 30, 2011	$	15,343

The Company and Leo Mining have formalized their relationship with respect to the provision of services. A written agreement sets out the types of services to be provided and the costs associated with such services. Generally the Company shall reimburse Leo Mining for its proportionate cost of salaries, direct and overhead costs attributable to services provided to the Company, pay all disbursements made by Leo Mining on its behalf and pay a handling fee amounting to 15% of amounts paid and invoiced. These costs are recorded in general and administrative expense.

The transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. 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. The Company issued 19,852,899 shares to acquire Lancaster. These shares have an attributed value of $306,191. The Company issued an additional 10,696,499 shares through a private placement and 4,825,000 through a brokered placement, both of which closed December 20, 2010 for total proceeds of $7,625,026.

	Ref	Number	USD
Opening balance January 1, 2010 and September 30, 2010		1,000	$ 1,000
Outstanding common shares of Alloy at RTO	(iii)	5,004,474	443,787
Share consolidation (2.5:1)	(iii)	(3,002,684)	
Elimination of Lancaster shares and Alloy share capital		(1,000)	(443,787)
Acquisition of Lancaster	Note 5	19,852,899	306,191
Non-brokered offering	(i)	10,696,499	5,254,716
Brokered offering	(ii)	4,825,000	2,370,310
Share issue costs	(i), (ii)	-	(1,334,785)
Warrants valuation at December 31, 2010		-	(1,543,764)
Stock options exercised		66,667	25,000
Closing balance December 31, 2010 and September 30, 2011		37,442,855	$ 5,078,668

On December 20, 2010, the Company issued 10,696,499 Units at C$0.50 per Unit pursuant to the Non-Brokered Offering. The C$5,348,250 (US$5,254,716) gross proceeds of the Non-Brokered Offering were allocated between Common Shares C$4,265,443 (US $4,190,845) and Warrants C$1,082,807 (US $1,063,870) based on their relative fair value on the grant date. As compensation, 272,970 finders' warrants (the "Finders' Warrants") were issued. The Finders' Warrants entitle the holder to acquire one finders' unit (the "Finders' Unit") at an exercise price of C$0.50 for a term of 24 months from issuance. Each Finders' Unit consists of one Common Shares and one-half of one (1/2) Warrant. Each whole Warrant (the "Finders' Unit Warrant") entitles the holder to acquire a Common Share at an exercise price of C$0.75 for a period of 24 months from issuance of the Finders' Unit Warrant. The resulting 136,485 Finders' Warrants were valued at $630,566. The value of the Warrants was estimated using cash paid for services rendered as required under IFRS 2.

On December 20, 2010, the Company issued 4,825,000 Units at C$0.50 per Unit pursuant to the Brokered Offering co-lead by Haywood Securities Inc. and Byron Securities Limited (collectively, the "Agents"). The C$2,412,500 (US $2,370,310) gross proceeds of the Brokered Offering were allocated between Common Shares C$1,924,065 (US $1,890,417) and Warrants C$488,435 (US $479,894) based on their relative fair value on the grant date. The Agents received 337,750 "Agents Warrants". The Agents' Warrants entitle the holder to acquire one Agents' unit (the "Agents' Unit") at an exercise price of C$0.50 for a term of 24 months from issuance. Each Agents' Unit consists of one Common Share and one-half of one (1/2) Warrant. Each whole Warrant (the "Agents' Unit Warrant") entitles the holder to acquire a Common Share at an exercise price of C$0.75 for a period of 24 months from issuance of the Agents' Unit Warrant. The resulting 168,875 Agents' Unit Warrants were valued at $284,436. The fair value of the Warrants was estimated using the cash paid for services rendered as required under IFRS 2.

Pursuant to the Qualifying Transaction on December 20, 2010, the Company consolidated its issued and outstanding common shares on a 2.5:1 basis. After the consolidation, Mkango had 2,001,790 common shares issued and outstanding.

b) Warrants

Under IFRS, 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. The liability is re-measured at each reporting date with the change in value recorded as a financing cost included in interest and other income in the interim consolidated statement of loss and comprehensive loss.

	Exercise Price	Years	Number of Warrants	USD
Balance at, January 1, 2010 and September 30, 2010	-		-	$ -
Balance at December 31, 2010	$0.75	2.0	7,760,750	$ 1,543,764
Change in fair value				
Warrants issued - Non-Brokered Offering	$0.75	1.2	5,348,250	(126,889)
Warrants issued - Brokered Offering	$0.75	1.2	2,412,500	(57,242)
Balance at September 30, 2011	$0.75	1.2	7,760,750	$ 1,359,633

The Company issued 7,760,750 warrants as part of the share issuance which closed December 20, 2010. Each warrant entitles the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IAS 32 there are two conditions which the transaction must meet in order to account for the warrants as an equity instrument. First, the warrants must meet the "fixed-for-fixed" condition (IAS 32.16 and 32.21-.24). Since the share units were issued for a Canadian dollar denominated price that is not fixed in the Company's functional currency, the US dollar, the issuance fails to meet this condition. The second condition requires that the share issuance be classified as a rights offering. The share issuance does not qualify as a rights offering because it was not made exclusively to existing shareholders on a pro-rata basis, but rather was made available to the general public. Therefore, the warrants are classified as a derivative liability and are measured at fair value with changes recognized in the statement of net loss and comprehensive loss each reporting period.

The warrant fair value calculation for 2011 is presented below. The net impact to the statement of net loss and comprehensive loss is a loss of $184,131 for the nine months ended September 30, 2011.

The change in the derivative liability for the nine month period ended September 30, 2011 is as follows:

Warrants Issued	Issued (1)	Fair value estimate at December 31, 2010	Fair value estimate adjustments	Fair value estimate at September 30, 2011
Cdn $0.75	7,760,750	$ 1,543,764	$(184,131)	$ 1,359,633

(1) Warrants issued do not include warrants issued to brokers and agents.

Disclosure Correction

Initially, the Company and its Auditors determined that the warrants qualified as an equity instrument under the interpretation provided by IFRS 2, and they were reported using the accounting treatment for equity in the financial statements ended December 31, 2010, March 31, 2011 and June 30, 2011. Under the equity accounting method, the warrants were not revalued to fair value at the end of each reporting period but remained fixed at the initial warrant valuation of $1,543,764 which was calculated at December 20, 2010. The fair value impact on net income for the period from December 20, 2010 (date of issue) to December 31, 2010 was deemed to be immaterial to the users of the financial statements. If the revaluation had been reported during 2011, the net impact as of June 30, 2011 would have been a loss of $3,120. Under the accounting treatment prescribed by IAS 32, the change in fair value of the warrants for each reporting period would have been recalculated as shown below:

For the period ended,	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**	**Change in net income**
Warrant valuation, for the period	$ 2,848,161	$1,577,587	$ 1,396,577	
Opening valuation	1,580,708	2,848,161	1,577,587	
Unrealized expense loss (gain) for the period	$ 1,267,454	$(1,270,574)	$ (181,011)	$ (184,131)

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 the calculation:

Risk free interest rate	1.77%	1.58%	1.49%
Expected life (years)	1.7	1.5	1.2
Expected volatility	95%	95%	95%
Dividends	Nil	Nil	Nil

Net Income Reconciliation

The following table outlines the effect of the warrant valuation on net income and earnings per share for the interim periods ended March 31, 2011 and June 30, 2011:

For the period ended,	**March 31, 2011**	**June 30, 2011**
Total comprehensive loss before warrant revaluation	$ (929,444)	$ (2,323,464)
Unrealized loss (gain) on revaluation of warrants	(1,267,454)	1,270,574
Total comprehensive loss attributable to common shareholders	$ (2,196,898)	$ (1,052,890)
Net loss per share - before warrant revaluation	$ (0.02)	$ (0.06)
Net loss per share - after warrant revaluation\	$ (0.06)	$ (0.03)

c) Contributed surplus

	Number of warrants	USD
Balance December 31, 2009	-	$ -
Finders' unit warrants - Non-Brokered Offering	136,485	630,566
Agents' unit warrants - Brokered Offering	168,875	284,436
Balance December 31, 2010	305,360	915,002
Stock option expense	-	1,355,499
Balance September 30, 2011	305,360	$ 2,270,501

d) Stock options

The Company has an evergreen stock option plan established to recognize contributions made by key personnel, to provide incentive to qualified parties to increase their proprietary interest in the Issuer and thereby encourage their continued association with the Issuer.

The compensation expense relating to stock options that has been recognized in the consolidated statement of comprehensive loss for the nine months ended September 30, 2011 is $1,355,499. The corresponding amount has been recognized in contributed surplus. The fair value of the stock options was estimated on the date of each grant using the Black-Scholes option pricing model assuming a volatility of 95%, an expected life of 10 years and a risk free interest rate of 3.25%. The options vest over an 18 month period with 25% vesting immediately upon grant and the remaining options vesting every 6 months thereafter.

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 Remaining Contractual Life (years)
Granted - December 1, 2008	200,000	$0.38	200,000	2.2
Balance at December 31, 2010	200,000	0.38	200,000	2.2
Granted - January 17, 2011	350,000	0.50	175,000	9.3
Granted - February 21, 2011	2,000,000	0.50	1,000,000	9.3
Granted - June 2011	480,000	0.65	120,000	9.8
Options exercised – August 2011	(66,667)	0.38	(66,667)	-
Balance at September 30, 2011	2,963,333	$0.53	1,428,333	9.1

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 of $0.53 per option:

Risk free interest rate	3.25%
Expected life	10 years
Expected volatility	95%
Dividends	Nil
Forfeiture rate	5%

e) Escrowed shares

There are 10,586,449 million common shares outstanding at September 30, 2011 held in escrow. On January 5, 2011, 25% of the escrowed shares were released and 25% will be released every six months thereafter.

10. KEY MANAGEMENT REMUNERATION

Name	Title	Year	Salary	Share based awards	Option based awards (1)	Total compensation
William Dawes	Chief Executive Officer and Director	2011	$ 98,425	$ -	$ 168,700	$ 267,125
Alexander Lemon	President and Director	2011	98,425	-	168,700	267,125
Sandra Beaulieu	Chief Financial Officer	2011	41,699	-	15,309	57,008
Eugene Chen	Director	2011	-	-	65,050	65,050
David Berg	Director	2011	-	-	65,050	65,050
Adrian Reynolds	Director	2011	-	-	112,268	112,268
William Dawes	Chief Executive Officer and Director	2010	10,918	-	-	10,918
Alexander Lemon	President and Director	2010	10,918	-	-	10,918
Eugene Chen	Director	2010	-	-	8,333	8,333
David Berg	Director	2010	-	-	8,333	8,333
Arthur Wong	Director	2010	-	-	8,333	8,333

Note:

(1) The Issuer uses the Black-Scholes option valuation model to estimate the fair value of option based awards at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Issuer's option based awards.

11. FINANCIAL INSTRUMENTS

Determination of fair values

A number of the Company’s accounting policies and disclosure 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.

The carrying value of cash, trade and other payables approximates the fair value due to their short term nature and maturity. The determination of the fair value of the loan from related party is not reliable given that it has been outstanding for twenty years and there are no interest or repayment terms attached to it, please refer to Note 8.

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. The Company holds small amounts of cash in foreign bank accounts. The fair value of these assets are equal to their carrying amount as cash is translated every reporting period at the closing foreign exchange rate.

Foreign currency rate risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions are recognized and assets and liabilities are denominated in a

currency that is not the Company's reporting currency. The Company's expenses include amounts incurred in the Thai Baht and Canadian dollar. The Company's exchange risk is therefore related to movements between these two currencies. The Company has a downside risk to strengthening of the Thai Baht as this increases expenses in Canadian dollar terms. Additionally, any such movements would affect the Consolidated Balance Sheet when the assets of the subsidiaries are translated into Canadian dollars. The Company does not presently hedge against foreign currency exchange rate movements.

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	Greater than 1 Year
Accounts payable and accrued liabilities	$ 283,171	$ 283,171	$ -
Loan from related party	15,343	15,343	-
Warrants	1,359,633	-	1,359,633
Total	$ 1,658,147	$ 298,514	$ 1,359,633

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.

Currency risk sensitivity

The Company's net assets and liabilities are predominately held in the United States dollar ('USD') and the Canadian dollar. The following table details the Company's sensitivity to a 10% increase and decrease in the Canadian dollar against the USD. A positive (negative) number below indicates an increase (decrease) in profit and equity where the Canadian dollar strengthens 10% against the USD.

	Increase (decrease) to comprehensive loss	
	10% decrease in $CDN relative to USD	10% increase in $CDN relative to USD
Loss	($378,979)	$378,979
Translation of foreign operation	($392,170)	$392,170

12. CAPITAL COMMITMENTS

The Company was granted the Phalonbe licence for the Songwe property on January 21, 2010. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi for the Phalombe licence are as follows:

Exploration commitments	$	263,636
Ground rent		77,758
Total commitment	$	367,903

On September 10, 2010, the Company was granted the Thambani 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 Company has not undertaken any activity on the licence area to date.

The future spending commitments for exploration expenses up to 2013 with the Government of Malawi for the Thambani licence are as follows:

Exploration commitments	$	288,209
Ground rent		28,364
Total commitment	$	351,864

In November 2011, the Company was notified by the Malawi government that the ground rent had increased from 100 Kwacha ($0.60 USD) per square kilometer to 10,000 Kwacha ($60.60 USD) per square kilometer of licensed area. As a result, the ground rent commitment for the Company has increased significantly for the period ended September 30, 2011.

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

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

14. EVENTS AFTER THE BALANCE SHEET DATE

There have been no subsequent events as of the date of this report.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on November 28, 2010.

16. TRANSITION TO IFRS

For all periods up to and including December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. These financial statements are the first the Company has prepared in accordance with IFRS. Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010 and the significant accounting policies adopted are shown in note 5. In preparing these financial statements, the Company has started from an opening balance sheet as at January 1, 2010, the Company's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Company in restating its balance sheet as at January 1, 2010.

The Company has determined that its functional and reporting currency, under IFRS, for the parent and subsidiary is the United States dollar.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption to IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply the standards retrospectively to the opening balance sheet, the comparative period(s) and the reporting period. The standard allows certain optional exemptions from full retrospective application and other elections on transition.

The Company has elected to take the following exemptions available under IFRS 1:

a) Cumulative translation differences – A first time adopter is not required to restate the cumulative translation differences retrospectively that exist at the transition date. As such, the cumulative translation difference is deemed to be zero at the transition date.

b) Share based payment transactions – The Company has elected to apply the exemption available under IFRS-2 for liabilities arising from share based payment transactions that will be settled after the date of transition to IFRS. The Company has elected to apply IFRS 2 retrospectively to equity instruments that were granted after November 7, 2002 that vested before the date of transition to IFRS. In particular, the Company will apply the exemption to the stock option grant made on December 1, 2008.

The Company has taken the following mandatory exceptions available under IFRS 1:

a) Estimates – Company estimates under IFRS at the date of transition shall be consistent with estimates made for the same dated under Canadian GAAP. Decommissioning liabilities and onerous contracts were reviewed and none are noted at the date of transition to IFRS.

ADJUSTMENTS FROM CANADIAN GAAP TO IFRS

a) Consolidated Statement of Financial Position

The adoption of IFRS did not impact the opening consolidated statement of financial position at January 1, 2010. Nor did the adoption of IFRS impact the consolidated statement of financial position at March 31, 2010, June 30, 2010 or September 30, 2010. Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP as of December 31, 2010.

As at	CDN GAAP Dec. 31, 2010	GAAP value Warrants (1)	IFRS value Warrants (1)	IFRS Dec. 31, 2010
ASSETS				
Current				
Cash and cash equivalents	$ 7,840,140	$ -	$ -	$ 7,840,140
Accounts receivable	21,188	-	-	21,188
Total current assets	7,861,328	-	-	7,861,328
Investment in subsidiary	-	-	-	-
Property and equipment	288	-	-	288
Total assets	7,861,616	-	-	7,861,616
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	801,445	-	-	801,445
Due to related party	405,449	-	-	405,449
Total current liabilities	1,206,894	-	-	1,206,894
Share capital	5,800,259	168,412	(915,003)	5,053,668
Warrants	1,543,764	-	-	1,543,764
Contributed surplus	168,411	(168,412)	915,003	915,002
Deficit	(857,712)	-	-	(857,712)
Total Shareholders' deficiency	$ 6,654,722	-	-	$ 6,654,722

(1) Refer to note 15 (d)

b) Consolidated Statement of Comprehensive Loss

The adoption of IFRS did not impact the amounts reported as the consolidated statement of comprehensive loss for the periods ended March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010.

c) Statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as the operating, investing and financing cash flows in the consolidated statements of cash flows for the periods ended January 1, 2010, March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010.

d) Notes to the IFRS reconciliations

On adoption of IFRS, the valuation of warrants issued as compensation to agents and brokers with respect to the brokered and non-brokered placements which closed December 20, 2010, required revaluation under the IFRS 2 to reflect a fair value based on services received. A cash payment of 6% on shares issued was paid to the broker of the brokered placement, therefore, this value was deemed to be the fair value of the services received and was applied to the agents' and brokers' warrants as shown in the following table:

	Number of Warrants	Shares Sold	FV Cash Payment	IFRS FV of Warrants Issued	GAAP USD Value
Non brokered - Brokers' warrants	136,485	10,696,499	6%	$ 630,566	$ 75,254
Brokered - Agents' Warrants	168,875	4,825,000	6%	$ 284,437	$ 93,158
	305,360	15,521,499		$ 915,003	$ 168,412