



## Condensed Interim Consolidated Financial Statements

### **MKANGO RESOURCES LTD.**

For the three months ended March 31, 2020 and 2019

Unaudited condensed 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 condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019.

**MKANGO RESOURCES LTD**  
**Condensed Interim Consolidated Statements of Financial Position**  
**Reported in US dollars**

As at	Notes	March 31, 2020	December 31, 2019
<b>ASSETS</b>			
Current			
Cash		\$7,394,278	\$9,530,017
Government remittances receivable		92,620	89,259
Other receivables		1,905	3,721
Prepaid expenses and accrued income		142,070	111,357
Total currents assets		7,630,873	9,734,354
Property and equipment	5	87,970	95,880
Investment in associate	6	369,389	-
Total assets		8,088,232	9,830,234
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		181,439	410,645
Due to related parties	7	49,327	57,733
Grant received in advance	8	46,808	48,083
Total liabilities		277,574	516,461
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9(a)	12,563,211	12,563,211
Contributed surplus		4,037,245	3,969,283
Accumulated other comprehensive income		69,898	106,413
Retained deficit		(5,296,121)	(4,113,119)
Total shareholders' equity of parent		11,374,233	12,225,788
Non-controlling interest	10	(3,563,575)	(2,912,015)
Total liabilities and shareholders' equity		\$8,088,232	\$9,830,234
Going concern	2		
Commitments	12		
Subsequent events	14		

Approved on behalf of the Board:

(signed)

\_\_\_\_\_  
William Dawes, CEO and Director

(signed)

\_\_\_\_\_  
Shaun Treacy, Director

Refer to accompanying notes to the Condensed Interim Consolidated Financial Statements.

# MKANGO RESOURCES LTD

## Condensed Interim Consolidated Statements of Comprehensive Loss Reported in US dollars

		For the three months ended March 31,	
	Notes	2020	2019
<b>Expenses</b>			
General and administrative		\$371,672	\$340,034
Mineral exploration expenditures		564,415	454,985
Research and development		-	3,517
Depreciation	5	7,910	6,280
Share-based payments	9(c)	67,962	29,664
		<b>1,011,959</b>	<b>834,480</b>
<b>Other items</b>			
Interest income		(6)	(85)
Share of associated company losses	6	2,970	-
Accretion		-	4,033
Listing expenses		24,328	24,036
Unrealized gain on revaluation of warrants	9(b)	-	(135,531)
Realized gain on revaluation of warrants	9(b)	-	(134,915)
Loss on deferral of related party consulting fees		-	1,675
Foreign exchange loss	11	483,439	103,886
		<b>510,731</b>	<b>(136,901)</b>
<b>Net loss</b>		<b>\$1,522,690</b>	<b>\$697,579</b>
<b>Net loss attributable to</b>			
Common shareholders		883,002	506,939
Non-controlling interest	10	639,688	190,640
<b>Attributable net loss</b>		<b>1,522,690</b>	<b>\$697,579</b>
<b>Other comprehensive loss</b>			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		36,515	7,212
<b>Total comprehensive loss</b>		<b>\$1,559,205</b>	<b>\$704,791</b>
<b>Total comprehensive loss attributable to</b>			
Common shareholders		907,645	512,386
Non-controlling interest	10	651,560	192,405
<b>Attributable comprehensive loss</b>		<b>\$1,559,205</b>	<b>\$704,791</b>
<b>Net loss per share – basic and diluted</b>			
		<b>\$(0.007)</b>	<b>\$(0.004)</b>
<b>Weighted average shares outstanding basic and diluted</b>			
		<b>133,000,721</b>	<b>113,058,077</b>

Refer to accompanying notes to the Condensed Interim Consolidated Financial Statements.

**MKANGO RESOURCES LTD**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**Reported in US dollars**

		For the three months ended March 31,	
	Notes	2020	2019
<b>Cash flow used by operating activities</b>			
Net (loss) for the period		<b>\$(1,522,690)</b>	\$(697,579)
Items not affecting cash:			
Unrealized (gain) on revaluation of warrants	9(b)	-	(135,531)
Realized (gain) loss on revaluation of warrants	9(b)	-	(134,915)
Share based payments	9(c)	<b>67,962</b>	29,664
Share of associated company losses	6	<b>2,970</b>	-
Depreciation	5	<b>7,910</b>	6,280
Accretion		-	4,033
Loss on deferral of related party consulting fees		-	1,675
Unrealized foreign exchange loss (gain)		<b>489,403</b>	91,148
Change in non-cash operating capital			
(Decrease)/increase in government remittances receivable and prepaid expenses		<b>(32,258)</b>	81,301
Decrease in amounts due to related parties		<b>(8,406)</b>	-
(Decrease)/increase in accounts payable and accrued liabilities		<b>(229,206)</b>	66,297
Cash flow used by operating activities		<b>(1,224,316)</b>	(687,627)
<b>Cash flow provided by financing activities</b>			
Investment by non-controlling investor	10	-	9,255,853
Share issue expenses	10	-	(188,826)
Stock options exercised	9(a)	-	75,811
Warrants exercised	9(a)	-	99,268
Cash flow provided by financing activities		-	9,430,932
<b>Cash flow used by investing activities</b>			
Investment in associate	6	<b>(391,650)</b>	-
Cash flow used by investing activities		<b>(391,650)</b>	-
Effect of exchange rate changes on cash		<b>(519,773)</b>	(85,409)
<b>Change in cash</b>		<b>(2,135,739)</b>	8,657,896
Cash and restricted cash at the beginning of the period		<b>9,530,017</b>	2,400,702
<b>Cash and restricted cash at the end of the period</b>		<b>\$7,394,278</b>	\$11,058,598

Refer to accompanying notes to the Condensed Interim Consolidated Financial Statements.

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

	Note	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2018		\$10,641,411	\$3,774,020	\$84,088	\$(11,150,914)	\$(2,208,178)	\$1,140,427
Warrants exercised	9(a)	134,915	-	-	-	-	134,915
Stock options exercised	9(a)	145,635	(69,824)	-	-	-	75,811
Share based payments	9(c)	-	29,664	-	-	-	29,664
Acquisition of shares by NCI	10	-	-	-	-	660,580	660,580
Gain on recognition of NCI	10	-	-	-	8,406,447	-	8,406,447
Foreign exchange change		-	-	-	-	(1,765)	(1,765)
Total comprehensive income		-	-	(7,212)	(506,939)	(190,640)	(704,791)
Balance at March 31, 2019 as restated		\$10,921,961	\$3,733,860	\$76,876	\$(3,251,406)	\$(1,740,003)	\$9,741,288
Prior period adjustments*		158,678	(158,676)	-	8,324,586	(8,107,717)	216,871
Balance at March 31, 2019 as previously stated		\$11,080,639	\$3,575,184	\$76,876	\$5,073,180	\$(9,847,720)	\$9,958,159
Balance at December 31, 2019		£12,563,211	\$3,969,283	£106,413	\$(4,413,119)	\$(2,912,015)	\$9,313,773
Share based payments	9(c)	-	67,962	-	-	-	67,962
Foreign exchange change		-	-	-	-	(11,872)	(11,872)
Total comprehensive income		-	-	(36,515)	(883,002)	(639,688)	(1,559,205)
<b>Balance at March 31, 2020</b>		<b>\$12,563,211</b>	<b>\$4,037,245</b>	<b>\$69,898</b>	<b>\$(5,296,121)</b>	<b>\$(3,563,575)</b>	<b>\$7,810,658</b>

\* During the period ended December 31, 2019, the Company identified a prior period adjustment in respect of accounting for non-controlling interests and the transfer to share capital from the contributed surplus on the exercise of share options. As such, the Company has retrospectively restated its previously reported condensed interim consolidated financial statements to reflect the overstated amounts. There was no effect on the Consolidated Statements of Comprehensive Loss or Cash Flows or on net loss per share as a result of the restatement.

Refer to accompanying notes to the Condensed Interim Consolidated Financial Statements.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the three months ended March 31, 2020 and 2019**  
**(Reported in US dollars unless indicated otherwise)**

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**1. GENERAL INFORMATION**

Mkango was originally 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 BVI”). The articles of Mkango were amended to change its name from Alloy Capital Corp. to Mkango Resources Ltd. On October 15, 2018, Mkango discontinued its incorporation in Alberta, Canada and became incorporated in the province of British Columbia, Canada. Mkango’s registered office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

The principal business of Mkango Resources Ltd (“Mkango”) is rare earth element and associated minerals exploration and development with three properties in the Republic of Malawi, Africa, including the Phalombe exploration license (“Phalombe License”), the Thambani exploration license (“Thambani License”), the Chimimbe exploration license (“Chimimbe License”) and the Mchinji Exploration license (“Mchinji License”).

Lancaster BVI was incorporated on August 3, 2007, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands (“BVI”) Companies Act. Lancaster BVI is 51% owned by Mkango and 49% owned by Talaxis Limited (“Talaxis”) (Note 9). Lancaster BVI’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 19, 2011, Lancaster Exploration Limited (“Lancaster Malawi”) was incorporated under the laws of Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI and as such, is 49% owned by Talaxis.

On January 3, 2018, Maginito Limited (“Maginito”) was incorporated under the laws of the British Virgin Islands (“BVI”). Maginito is 75.5% owned by Mkango and 24.5% owned by Talaxis (Note 9). Maginito’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

MKA Exploration Limited (“MKA Exploration”) was incorporated on July 25, 2018, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands (“BVI”) Companies Act. MKA Exploration is 100% owned by Mkango. MKA Exploration’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 6, 2019, MKA Exploration Limited (“MKA Exploration Malawi”) was incorporated under the laws of Malawi. MKA Exploration Malawi is 100% owned by MKA Exploration. MKA Exploration Malawi’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

Mkango and its subsidiaries are collectively referred to as the “Company” in these Condensed Interim Consolidated Financial Statements.

The Condensed Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on May 29, 2020.

**2. GOING CONCERN**

These Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. During the three months ended March 31, 2020 the Company incurred net losses of \$1,522,690 and negative cash flows from operations of \$1,224,316. In addition, the Company has future spending commitments with the Government of Malawi to keep its exploration licences in good standing. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi (Note 12). As at March 31, 2020, the licences are in good standing with the Government of Malawi. These factors may indicate material uncertainties, which may cast significant doubt on the Company’s ability to continue as a going concern.

Notwithstanding the above paragraph, the operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million (\$16 million), of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 10). Talaxis holds an option to fund project development. The Talaxis investments will be used to fund a Bankable Feasibility Study for the Songwe Hill project. In addition, Talaxis invested £1 million (\$1.3 million) in Maginito during 2018.

These Condensed Interim 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.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the three months ended March 31, 2020 and 2019**  
**(Reported in US dollars unless indicated otherwise)**

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**3. BASIS OF PRESENTATION**

**(a) Statement of compliance**

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) in effect on January 1, 2020.

**(b) Basis of presentation and measurement**

These Condensed Interim Consolidated Financial Statements have been prepared using the historical cost convention, except for certain financial instruments and share-based payment transactions measured at fair value.

**(c) Functional and presentation currency and principles of consolidation**

The Condensed Interim Consolidated Financial Statements are presented in United States dollars (“US dollars”), which is the functional currency of Mkango. Below is a listing of ownership percentage and functional currency of Mkango’s subsidiaries:

<b>Entity Name</b>	<b>Functional Currency</b>	<b>Ownership Percentage</b>
Lancaster Exploration (“Lancaster BVI”)	US Dollar	51% (2018: 80%)
Lancaster Exploration Limited (“Lancaster Malawi”)	Malawi Kwacha	51% (2018: 80%)
Maginito Limited (“Maginito”)	Pound Sterling	75.5% (2018: 75.5%)
MKA Exploration Limited (“MKA Exploration”)	US Dollar	100% (2018: 100%)
MKA Exploration Limited (“MKA Exploration Malawi”)	Malawi Kwacha	100% (2018: N/A)

The Condensed Interim Consolidated Financial Statements of the Company include the accounts of the Company and its five subsidiaries listed above. All intercompany balances and transactions are eliminated upon consolidation.

**(d) Non-controlling interest**

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders’ equity (deficiency). Changes in the Company’s ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 51% of the common outstanding shares of its subsidiaries, Lancaster BVI and Lancaster Malawi, and 75.5% of the outstanding common shares of Maginito. These Condensed Interim Consolidated Financial Statements include 100% of the assets and liabilities related to Lancaster BVI, Lancaster Malawi and Maginito and include a non-controlling interest representing 49% of Lancaster BVI, 49% of Lancaster Malawi and 24.5% of Maginito’s assets and liabilities not owned by the Company.

**(e) Use of estimates and judgments**

The preparation of the Condensed Interim Consolidated Financial Statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Key areas of judgment made in applying the Company’s accounting policies are as follows:

**(i) Exploration and evaluation expenditures**

Costs incurred in respect of properties that have been determined to have proved reserves and for which an environmental impact study has been completed, are classified as development and production assets. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no established development past or present and no proved reserves assigned are classified as exploration and evaluation expenses and are recognized in the consolidated statement of comprehensive loss. The decision to start capitalization of expenditures to property and equipment is subject to management’s judgement regarding the project’s commercial viability and technical feasibility. As at the date of this report, management has determined that the Company has not yet reached the development and production stage.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the three months ended March 31, 2020 and 2019**  
**(Reported in US dollars unless indicated otherwise)**

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**3. BASIS OF PRESENTATION (continued)**

(ii) Functional currency

The determination of the functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Therefore, determination of functional currency may involve certain judgments to determine the economic environment, which is the most representative for each subsidiary. The Company reconsiders the functional currency of each subsidiary if there is a significant change in the underlying transactions, events and conditions that were initially considered in determining the functional currency.

Key areas of estimation where management has made difficult, complex or subjective assumptions, often as a result of matters inherently uncertain are as follows:

(i) Measurement of share-based payments and warrant valuation (Note 9(b)(c))

The Company uses the Black-Scholes option-pricing model to determine the fair value of share-based payments and warrants. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

(ii) Determination of fair values (Note 11)

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses a discount rate to determine the fair value of deferred consulting fees on initial recognition. The discount rate is based on an estimated market rate for the Company to obtain similar unsecured financing from a third-party lender.

(iii) Taxes

Provisions for taxes are made using the best estimate of the amounts expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

**(f) New IFRS pronouncements not yet implemented**

Certain new IFRS standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company's Condensed Interim Consolidated Financial Statements.

**(g) IFRS pronouncements adopted January 1, 2020**

There are no IFRS pronouncements that required adoption on January 1, 2020 that have a material impact on the Company's Condensed Interim Consolidated Financial Statements.

**4. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2019. In addition, the Company has adopted the following accounting policy in respect of investments in associates during the three months ended March 31, 2020:

**Investment in associates**

Where the company has significant influence to participate in the financial and operating policy of an investee but does not have control or joint control of the investee then the Company accounts for its interest in the investee under the equity method of accounting. Under the equity method the Company recognizes its initial investment at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income after the date of acquisition.



**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the three months ended March 31, 2020 and 2019**  
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**5. PROPERTY AND EQUIPMENT**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
<b>Cost</b>					
Balance at December 31, 2018	\$ 289	\$ -	\$ 48,397	\$ 80,011	\$ 128,697
Additions	-	50,350	-	-	50,350
Balance at December 31, 2019	\$ 289	\$ 50,350	\$ 48,397	\$ 80,011	\$ 179,047
Additions	-	-	-	-	-
<b>Balance at March 31, 2020</b>	<b>\$ 289</b>	<b>\$ 50,350</b>	<b>\$ 48,397</b>	<b>\$ 80,011</b>	<b>\$ 179,047</b>
<b>Accumulated Depreciation</b>					
Balance at December 31, 2018	\$ 289	\$ -	\$ 38,842	\$ 14,207	\$ 53,338
Depreciation	87	2,517	7,309	20,003	29,829
Balance at December 31, 2019	\$ 289	\$ 2,517	\$ 46,151	\$ 34,210	\$ 83,167
Depreciation	-	2,518	392	5,000	7,910
<b>Balance at March 31, 2020</b>	<b>\$ 289</b>	<b>\$ 5,035</b>	<b>\$ 46,543</b>	<b>\$ 39,210</b>	<b>\$ 91,077</b>
<b>Net Book Value</b>					
December 31, 2019	\$ -	\$ 47,833	\$ 2,246	\$ 45,801	\$ 95,880
<b>March 31, 2020</b>	<b>\$ -</b>	<b>\$ 45,315</b>	<b>\$ 1,854</b>	<b>\$ 40,801</b>	<b>\$ 87,970</b>

**6. INVESTMENT IN ASSOCIATE**

On January 10, 2020 the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling, incorporated in England and Wales. Maginito has invested an initial £300,000 for a 25% interest in HyProMag and has an option to invest a further £1 million to increase its interest up to 49%.

	Total
<b>Cost</b>	
Balance at December 31, 2019	\$ -
Additions	391,650
Share of post-acquisition losses	(2,970)
Foreign exchange difference	(19,291)
<b>Balance at March 31, 2020</b>	<b>\$ 369,389</b>

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the three months ended March 31, 2020 and 2019**  
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**6. INVESTMENT IN ASSOCIATE (continued)**

The summarized financial information in respect of HyProMag Limited is as follows:

	March 31, 2020	January 9 2020
<b>Assets and liabilities</b>		
Non-current assets	\$ 4,837	\$ 5,088
Current assets	366,657	23,856
Current liabilities	(5,125)	(5,392)
Net assets	366,369	\$ 23,552
Company's share of net assets	91,592	5,888
<b>Results</b>		
Revenue	\$ -	\$ -
Losses	\$ 11,878	-

The results of HyProMag Limited have been equity accounted for and included in the financial statements of the Company based on unaudited management accounts.

**7. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) Leo Mining Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers who have an ownership in, and exercise significant influence over, both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services, which may be provided, and the costs associated with such services. The Company repays the disbursements made by Leo Mining on its behalf. During the three months ended March 31, 2020, the Company had incurred costs of \$35,574 (March 31, 2019 - \$13,630) for reimbursed exploration and administrative expenses. As of March 31, 2020, the Company has an outstanding payable to Leo Mining in the amount of \$1,301 (March 31, 2019 - \$7,739). The amount is unsecured and due on demand.
- b) Talaxis is considered an insider as it holds more than 10% of the shares of the Company. Transactions and balances with Talaxis are disclosed throughout the Condensed Interim Consolidated Financial Statements.
- c) Zenith Advisory Services Pty Ltd. ("Zenith") is considered a related party because a director of the Company is a principal of Zenith. During the three months ended March 31, 2020, the Company has incurred costs of \$nil (March 31, 2019 - \$182,801) for advisory services related to the Talaxis investments and director's fees of \$4,000 (March 31, 2019 - \$4,000). As of March 31, 2020, the Company has an outstanding payable of \$4,000 to Zenith (March 31, 2019 - \$nil). Outstanding liabilities due are unsecured, due on demand and non-interest bearing.
- d) The Company incurred costs of \$198,270 (March 31, 2019 - \$183,735) for key management fees and director fees for the three months ended March 31, 2020. The non-executive Directors of the Company are each entitled to a fee of \$16,000 per year and the Chairman of the Board is entitled to a fee of \$40,000 per year. As of March 31, 2020, the Company has an outstanding payable due to directors and officers of \$48,026 (March 31, 2019 - \$38,035). The current liabilities due to key management and directors are unsecured, due on demand and non-interest bearing.

March 31,	2020	2019
Consulting fees	\$ 105,641	\$ 115,826
Director fees	26,000	26,000
Share-based payments	66,629	41,909
Total key management compensation	\$ 198,270	\$ 183,735

The amounts due to related party at March 31, 2020 were as follows:

March 31,	2020	2019
Due to related parties with common directors	7 (a)	1,301
Due to key management and directors	7 (d)	48,026
Total due to related parties	\$ 49,327	\$ 45,814

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
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**8. GRANT RECEIVED IN ADVANCE**

Grant received in advance is comprised of grant funds, which have been received and partially consumed. The Company, through its wholly owned subsidiary, Lancaster BVI, is the recipient of a grant from the HiTech AlkCarb research program (the “Grant Program”) led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation (“EU”). Under the Grant Program, the Company will receive up to €168,553 (\$189,241). During 2016, the Company received an initial advance of €42,611 (\$47,922). On February 6, 2018, Lancaster BVI received a further €49,589 (\$61,199). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data (“Qualifying Expenditures”) have qualified for use of the grant funding. During the period ended March 31, 2018, the Company received confirmation from the EU that the \$46,772 of Qualifying Expenditures reported in July 2017 had been approved. An additional \$55,927 of Qualifying Expenditures was submitted for approval on March 31, 2019. On August 12, 2019, Lancaster BVI received a further €39,507 (\$43,675) in grants under the Grant Program. As of December 31, 2019, the unused portion of the grant received in advance is valued at \$48,083 (December 31, 2018 – \$63,862).

March 31,	2020	2019
Balance, beginning of period	\$ 48,083	\$ 63,862
Grants received during the period	-	-
Claims made	-	-
Foreign exchange loss	(1,275)	-
Balance, end of period	\$ 46,808	\$ 63,862
Maximum grant funds to be received	40,475	70,329
Unused portion of grant funds to be received	87,283	134,191

During March 31, 2020, Lancaster submitted a claim for \$108,553 of which \$87,283 has been included in accrued income and is awaiting approval.

**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, at its discretion, declares from available funds.

	Ref	Number	Amount
Closing balance December 31, 2018		111,299,188	\$10,641,411
Warrants exercised	(i)	1,136,363	134,915
Stock options exercised		1,620,000	145,635
Closing balance March 31, 2019		114,055,551	\$10,921,961
Closing balance December 31, 2019		133,000,721	12,563,211
<b>Closing balance March 31, 2020</b>		<b>133,000,721</b>	<b>\$12,563,211</b>

(i) During the three months ended March 31, 2019, a total of 1,136,363 warrants (note 8b) were exercised for a \$134,915 total increase in common share value of which \$99,267 was cash consideration.

- On March 20, 2019, a total of 1,136,363 warrants were exercised at a price of \$0.09 (£0.066) per common share for total cash consideration of £75,000 (\$99,267) in relation to the June 15, 2016 warrants issuance.

(ii) On January 1, 2019, 1,620,000 stock options of the Company were exercised for an increase in common share valuation of \$145,635 of which \$75,811 was cash consideration.

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9. **SHARE CAPITAL (continued)**

b) **Derivative financial instruments**

The exercise price of the share purchase warrants is fixed in Pound Sterling (“GBP” or “£”) and the functional currency of the Company is the US dollar. Warrants are considered a derivative, as a variable amount of cash in the Company’s functional currency will be received on exercise. Warrants issued do not include warrants issued to brokers and agents since they fall under the scope of IFRS 2, Share-Based Payments.

	Weighted Average Exercise Price (Canadian Dollar “CAD”)	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2018	\$ 0.60	£ 0.066	0.40	28,355,362	\$ 792,121
Warrants exercised	0.60	0.066	-	(1,136,363)	(35,648)
Foreign exchange effect	-	-	-	-	(7,620)
Realized fair value change	-	-	-	-	(134,915)
Unrealized fair value change	-	-	-	-	(135,531)
<b>Balance at March 31, 2019</b>	<b>\$ 0.60</b>	<b>£ 0.066</b>	<b>0.21</b>	<b>21,798,132</b>	<b>\$ 478,407</b>
Balance at December 31, 2019	\$ -	£ -	-	-	\$ -
<b>Balance at March 31, 2020</b>	<b>\$ -</b>	<b>£ -</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>

The fair value of each warrant issued is determined at each reporting period and prior to exercise using the Black-Scholes pricing model.

c) **Share-based payments**

(i) **Stock options**

The Company has a rolling stock option plan (the “Plan”) established to recognize contributions made by key personnel, to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continued association with the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of the grant of the options.

The share-based payments expense that has been recognized in the consolidated statements of comprehensive loss for the three months ended March 31, 2020 is \$67,962 (March 31, 2019 - \$29,664). The stock options issued pursuant to the Plan vest over a term of 24 months.

The following tables provide a summary of information about the Company’s stock option plan as at:

	<i>March 31, 2020</i>		<i>December 31, 2019</i>	
	<i>Options</i>	<i>Weighted-average exercise price</i>	<i>Options</i>	<i>Weighted- average exercise price</i>
Opening	13,025,000	\$0.07	10,845,000	\$0.06
Exercised	-	-	(1,620,000)	\$0.05
Granted – March 11, 2019	-	-	1,900,000	\$0.11
Granted – August 29, 2019	-	-	1,900,000	\$0.08
Total options	13,025,000	\$0.06	13,025,000	\$0.07
Vested options	10,398,750	\$0.05	9,197,500	\$0.06

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**9. SHARE CAPITAL (continued)**

The following provides a summary of the stock option plan as at March 31, 2020:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
<b>\$ 0.04 – 0.11</b>	<b>13,025,000</b>	<b>7.5</b>	<b>\$ 0.06</b>	<b>10,398,750</b>
	<b>13,025,000</b>	<b>7.5</b>	<b>\$ 0.06</b>	<b>10,398,750</b>

The following provides a summary of the stock option plan as at December 31, 2019:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
<b>\$ 0.05 - 0.12</b>	<b>13,025,000</b>	<b>7.7</b>	<b>\$ 0.07</b>	<b>9,197,500</b>
	<b>13,025,000</b>	<b>7.7</b>	<b>\$ 0.07</b>	<b>9,197,500</b>

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the options that were issued March 11, 2019 and August 29, 2019:

	Mar 11, 2019	Aug 29, 2019
Risk free interest rate (%)	1.75	1.14
Expected life (yrs)	10.0	10.0
Expected volatility (%)	127	125
Dividends	Nil	Nil
Forfeiture rate (%)	5.0	5.0
Weighted average fair value at issuance	\$0.10	\$0.08

(ii) Broker warrants

The following provides a summary of the Company's outstanding broker warrants as at March 31, 2020:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
<b>\$ 0.082</b>	<b>13,200,000</b>	<b>0.75</b>	<b>\$ 0.082</b>	<b>13,200,000</b>

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2019:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
<b>\$ 0.087</b>	<b>13,200,000</b>	<b>1.0</b>	<b>\$ 0.087</b>	<b>13,200,000</b>

During 2016, the Company engaged (the "Engagement") Zenith Advisory Services Pty Ltd. ("Zenith") to facilitate an introduction to Noble Group ("Noble") and to provide consulting services in respect of the Company entering into a rare earths collaboration agreement with Noble. Under the terms of the Engagement, Zenith is entitled to a fee comprising 10% of the number of warrants issued to Noble under the Collaboration Agreement. The Company issued 1,200,000 warrants to Zenith under the terms of the Engagement. On October 26, 2017, as part of the Talaxis placement, Zenith cancelled these warrants. Immediately upon cancellation, the Company issued 1,200,000 replacement common share purchase warrants to Zenith. Each warrant entitled Zenith to acquire one common share of the Company at a price of 6.6 UK pence until December 31, 2020.

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**9. SHARE CAPITAL (continued)**

During 2016, the Company entered into the “Collaboration Agreement” with Noble. Under the terms of the Collaboration Agreement, the Company issued 12,000,000 common share purchase warrants to Noble. Each warrant entitled Noble to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2018. The warrants gave Noble the right to acquire up to a 12.5% interest in the Company. On October 26, 2017, as part of the Talaxis placement, Noble cancelled these warrants. Immediately upon cancellation, the Company issued 12,000,000 replacement common share purchase warrants to Noble’s wholly owned subsidiary, Talaxis. Each warrant entitled Talaxis to acquire one common share of the Company at a price of 6.6 UK pence until December 31, 2020.

**10. NON-CONTROLLING INTEREST**

As of March 31, 2020, Mkango beneficially owns 51% of Lancaster BVI and Talaxis owns a 49% non-controlling interest and holds 49% of the voting rights. On March 28, 2019, Lancaster BVI received the most recent Talaxis investment, £7 million (\$9,255,853), which increased the non-controlling interest from 20% to 49%.

Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI. Therefore, Talaxis also owns a 49% non-controlling interest of Lancaster Malawi (“Consolidated Lancaster”).

**Lancaster BVI**

On January 19, 2018, Talaxis invested £2 million (\$2,772,822) and on January 24, 2018, Talaxis invested a further £3 million (\$4,091,728) in Consolidated Lancaster. The investments were pursuant to the agreement dated November 16, 2017, whereby, Talaxis was entitled to receive up to a 49% interest in Mkango’s subsidiary, Consolidated Lancaster, by investing an aggregate of £12 million in Consolidated Lancaster due in three tranches to complete the bankable feasibility study. On March 21, 2019, Mkango announced that it had filed the updated NI 43-101 Technical Resource Report (“Technical Report”) for the Songwe Hill Rare Earths Project. The filing of the Technical Report meant that Mkango had fulfilled the condition for Talaxis to advance the third and final tranche of investment, in accordance with the May 18, 2018 definitive agreements between Mkango and Talaxis. On March 28, 2019, £7 million (\$9,255,853) was received from Talaxis, which increased the Talaxis ownership in Consolidated Lancaster to 49%.

On May 18, 2018, Mkango signed the Songwe Joint Venture Agreement, the Talaxis Investment Agreement and the Cooperation Deed (the “Definitive Agreements”) in relation to the Talaxis Agreement. Talaxis has been granted an option to acquire a further 26% interest in Lancaster BVI by arranging funding, including investing the equity component, for development of the Songwe Hill Rare Earths Project, which, based on the pre-feasibility study prepared by MSA Group (Pty) Ltd dated December 1, 2015, would total US\$216 million, following the completion of the bankable feasibility study. If the Option is exercised, Mkango will hold a 25% interest in Lancaster BVI, free carried until production.

The Company paid cash finders' fees totalling \$168,823 following the receipt of the second tranche of the Talaxis investment and a further \$182,801 following the receipt of the third tranche of the Talaxis investment to Zenith. Including legal fees, the total share issue expenses were \$188,826 (2018: \$169,883).

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**10. NON-CONTROLLING INTEREST (continued)**

**The Talaxis non-controlling interest (“NCI”) is as follows:**

	<b>Talaxis NCI Ownership</b>	
	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Lancaster BVI	49%	49%
	<b>Consolidated Lancaster Financials as of</b>	
	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Net loss	\$(1,301,769)	\$(3,290,223)
<b>Total loss attributable to non-controlling interest</b>	<b>(637,867)</b>	<b>(1,342,339)</b>
Comprehensive loss	(1,301,838)	(3,292,004)
<b>Total comprehensive loss attributable to non-controlling interest</b>	<b>(637,901)</b>	<b>(1,343,212)</b>
Current assets	5,303,202	6,563,269
Non-current assets	87,970	95,880
Current liabilities	(200,297)	(275,489)
Non-current liabilities	(12,829,389)	(12,720,337)
<b>Net assets</b>	<b>(7,638,514)</b>	<b>(6,336,677)</b>
Cash flows used in operating activities	(919,700)	(3,481,761)
Cash flows provided by financing activities	-	9,067,027
Cash flows used in investing activities	-	(50,350)
Effect of exchange rate changes on cash	(371,959)	(156,164)
<b>Net decrease in cash</b>	<b>\$(1,291,659)</b>	<b>\$5,378,752</b>

**Maginito**

As at March 31, 2020, Mkango beneficially owns 75.5% of Maginito and Talaxis owns a 24.5% non-controlling interest and holds 24.5% of the voting rights.

On January 24, 2018, Talaxis invested £1 million (\$1,274,947) to receive a 24.5% interest in Maginito. Maginito will focus on downstream opportunities relating to the rare earths supply chain, in particular neodymium alloy powders, magnet and other technologies geared to accelerating growth in the electric vehicle market. The use of proceeds included expenditures under an agreement with Metalysis Limited (“Metalysis”) focused on advanced alloys using neodymium or praseodymium with other elements for magnet development. Payment of an additional £1 million was conditional on completion of a definitive Investment Agreement in respect of Maginito and successful completion of the second phase of the research and development programme with Metalysis, upon which Talaxis will hold a 49% interest in Maginito.

On June 6, 2019, the Company announced that it had been notified by Metalysis that Metalysis had entered administration (receivership). On July 5, 2019, it was reported in the media that Power Resources Group (“PRG”) was purchasing Metalysis.

The Company is in contact with PRG to determine if there is a mutually beneficial way forward for the collaboration. However, there is no guarantee that a new agreement, superceding the joint venture with Metalysis, can be arranged. The Company is also discussing with Talaxis restructuring the agreement in relation to the additional £1m investment into Maginito.

Mkango retains a 75.5% interest in Maginito. Maginito is continuing to evaluate new downstream opportunities relating to the rare earths supply chain including the investment in HyProMag Limited, which was announced on September 23, 2019.

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**10. NON-CONTROLLING INTEREST (continued)**

**The Talaxis non-controlling interest (“NCI”) is as follows:**

	<b>Talaxis NCI Ownership</b>	
	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Maginito	24.5%	24.5%
	<b>Maginito Financials as of</b>	
	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Net loss	\$(7,433)	\$(115,285)
<b>Total loss attributable to non-controlling interest</b>	<b>(1,821)</b>	<b>(28,245)</b>
Comprehensive loss	(48,318)	(86,552)
<b>Total comprehensive loss attributable to non-controlling interest</b>	<b>(13,659)</b>	<b>(21,205)</b>
Current assets	362,442	867,672
Non-current assets	369,389	-
Current liabilities	-	(80,090)
<b>Net assets</b>	<b>731,831</b>	<b>787,582</b>
Cash flows used in operating activities	(89,775)	(38,121)
Cash flows utilized in investing activities	(391,650)	-
Effect of exchange rate changes on cash	(23,805)	30,510
<b>Net decrease in cash</b>	<b>\$(505,230)</b>	<b>\$(7,611)</b>

**Movements in NCI**

<b>Balance brought forward</b>	<b>(2,912,015)</b>	<b>(2,208,178)</b>
Total comprehensive loss attributable to non-controlling interests:		
Lancaster BVI	(637,901)	(1,343,212)
Maginito	(13,659)	(21,205)
Acquisition of shares in Lancaster BVI by Talaxis	-	660,580
<b>Balance carried forward</b>	<b>\$(3,563,575)</b>	<b>\$(2,912,015)</b>

**11. FINANCIAL INSTRUMENTS**

**Determination of fair values**

Financial assets and liabilities have been classified into the following categories: (i) fair value through profit or loss and, (ii) amortized costs. Each category has a defined basis of measurement. If a category is measured at fair value, any changes in fair value is recognized in the Condensed Interim Consolidated Financial Statements of comprehensive loss.

In establishing fair value, the Company uses a fair value hierarchy based on levels defined below:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.



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**11. FINANCIAL INSTRUMENTS (continued)**

The carrying value of cash, restricted cash, government and other receivables, accounts payable and accrued liabilities, and amounts due to related parties, approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value (Note 8(b)).

**Financial risk management**

The Company's management monitors and manages the financial risks relating to the operations of the Company. These include foreign currency, interest rate, liquidity and credit risks.

**Foreign currency risk**

The functional and presentation currency of the Company is the US dollar. The Company enters into transactions denominated in the CAD, the US dollar, the Euro, the GBP, the Australian dollar, the South African Rand and Malawian Kwacha. The Company raises its equity in the CAD, and the GBP, and then purchases the US dollar, the Australian dollar, the South African Rand, the Euro and the Malawian Kwacha to settle liabilities. The Company minimizes exposure to foreign exchange loss by converting funds to the appropriate currencies upon receipt of funding based on the expected use of the various foreign currencies. The Company's exposure to foreign currency risk as at March 31, 2020 and 2019, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	<b>March 31, 2020</b>	March 31, 2019
Cash:		
Canadian Dollar	\$ 71,957	\$ 181,410
United States Dollar	2,217,832	3,885
Pound Sterling	2,838,407	10,861,683
Euro	383,235	878
Malawian Kwacha	23,511	10,742
Australian Dollar	1,859,336	-
Warrants – derivative financial instruments	-	(478,407)
Due to related parties	(49,327)	(45,814)
	<b>\$ 7,344,951</b>	<b>\$ 10,534,377</b>

A 5% reduction in the value of the CAD, Euro, GBP and Australian Dollar in comparison to the US Dollar would cause a change in net loss of approximately \$258,000 (2019: \$522,000). A 5% change in the value of the Malawian Kwacha in relation to the US Dollar would not cause a material change in net loss.

The Company incurred foreign exchange losses of \$483,439 for the three months ended March 31, 2020 due to unrealized exchange losses on cash held to meet payment obligations in foreign currencies other than the US Dollar.

**Interest rate risk**

The Company's exposure to interest rate risk relates primarily to its cash 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 dispose of 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 require the Company to conduct equity issuances or obtain other forms of financing.

The Company manages its liquidity risk by maintaining adequate cash and is actively seeking additional funding to improve its exposure to liquidity risk.

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**11. FINANCIAL INSTRUMENTS (continued)**

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 liabilities.

The following table outlines the maturities of the Company's financial liabilities as at March 31, 2020:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	\$ 228,247	\$ 228,247	\$ -
Due to related parties	\$ 49,327	\$ 49,327	\$ -

**Credit risk**

The Company's principal financial assets are cash. The credit risk on cash is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies.

**12. COMMITMENTS**

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Government of Malawi on a three-year basis. The license was subsequently renewed for a third time during December 2018 for a further two years, valid January 21, 2019 to January 21, 2021. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate as at March 31, 2020 – 734 Malawian Kwacha ("MWK") to 1 USD):

Exploration commitments, 2 years	\$ 204,329
Ground rent, 2 years (1 year paid)	11,566
<b>Total commitment</b>	<b>\$ 215,895</b>

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 square kilometres in Thambani, Mwanza District, Malawi. The license was issued by the Government of Malawi on a three-year basis, originally, and was subsequently renewed on September 10, 2015, for an additional two years when the Company requested a reduction in the license area to the current 136.9 square kilometres. The license has subsequently renewed for a further 2 years to September 9, 2021. The future spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate as at March 31, 2020 – 734 MWK to 1 USD):

Exploration commitments, 2 years	\$ 34,055
Ground rent, 2 years (1 year paid)	1,865
<b>Total commitment</b>	<b>\$ 35,920</b>

On November 10, 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 98.48 square kilometres in Chimimbe Hill, Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license will be up for renewal on November 10, 2020. The future spending commitments for exploration expenses with the Government of Malawi are 75,000,000 Kwacha over three years (foreign exchange rate as at March 31, 2020 – 734 MWK to 1 USD):

Exploration commitments, 3 years	\$ 102,165
Ground rent, 3 years (2 years paid)	1,341
<b>Total commitment</b>	<b>\$ 103,506</b>

On May 13, 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 868.69 square kilometres in Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license will be up for renewal on May 13, 2022. The future spending commitments for exploration expenses with the Government of Malawi are 50,000,000 Kwacha over three years (foreign exchange rate as at March 31, 2020 – 734 MWK to 1 USD):

Exploration commitments, 3 years	\$ 68,110
Ground rent, 3 years (1 year paid)	23,666
<b>Total commitment</b>	<b>\$ 91,776</b>

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**12. COMMITMENTS (continued)**

The Company is continuing to meet the terms and conditions of its three exploration licenses and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programs. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi.

**13. CAPITAL MANAGEMENT**

The Company's total capital consists of Mkango's shareholders' equity of \$11,374,233, as at March 31, 2019 (December 31, 2019 – \$12,225,788). The operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million (\$16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 10), from an additional investment of £1 million (\$1.3 million) in Maginito during 2018, from the proceeds received upon the exercise of warrants (Note 9(a)(i) and (ii)) and from the proceeds received upon the exercise of stock options (Note 9(a)(iii)).

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.

**14. SUBSEQUENT EVENTS**

On May 1, 2020 the Company advanced \$261,106 (£200,000) to HyProMag Limited under a convertible loan facility agreement dated January 9, 2020. The convertible loan has a maturity date of January 8, 2023, carries interest at 5% per annum and is unsecured.