



Condensed Interim Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the three months ended March 31, 2022 and 2021

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, 2022 and 2021.

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

As at	Notes	March 31, 2022	December 31, 2021
ASSETS			
Current			
Cash		2,147,897	4,446,850
Government remittances receivable	5	11,239	11,644
Other receivables		1,752	1,962
Prepaid expenses and accrued income		55,094	84,504
Total current assets		2,215,982	4,544,960
Property and equipment	6	32,584	40,577
Investment in associate	7	509,055	556,677
Government remittances receivable	5	123,922	120,953
Total assets		2,881,543	5,263,167
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	682,841	1,244,438
Due to related parties	8	49,495	14,134
Total liabilities		732,336	1,258,572
SHAREHOLDERS' EQUITY			
Share capital	10	38,377,817	38,148,271
Shares to be issued reserve		-	231,103
Contributed surplus		5,475,034	4,536,898
Accumulated other comprehensive income		105,843	122,378
Retained deficit		(41,809,487)	(39,034,055)
Total equity		2,149,207	4,004,595
Total liabilities and shareholders' equity		2,881,543	5,263,167

Approved on behalf of the Board:

(signed)

William Dawes, CEO and Director

(signed)

Shaun Treacy, Director

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD
Consolidated Statements of Comprehensive Loss
Reported in US dollars

		For the three months ended March 31,	
	Notes	2022	2021
Expenses			
General and administrative		1,554,173	557,355
Mineral project expenditures		1,105,685	915,458
		2,659,858	1,472,813
Other items			
Interest income		(11)	(3,443)
Share of associated company losses		25,929	4,490
Fair value losses		6,900	13,428
Foreign exchange (gain) loss		82,756	4,076
Net loss before tax		2,775,432	1,491,364
Income tax		-	-
Net loss after tax		2,775,432	1,491,364
Net loss attributable to			
Common shareholders		2,775,432	850,779
Non-controlling interest		-	640,585
Attributable net loss		2,775,432	1,491,364
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		16,535	(5,810)
Total comprehensive loss		2,791,967	1,485,554
Total comprehensive loss attributable to			
Common shareholders		2,791,967	846,013
Non-controlling interest		-	639,541
Attributable comprehensive loss		2,791,967	1,485,554
Net loss per share – basic and diluted	13	(0.013)	(0.006)

Refer to accompanying notes to the consolidated financial statements.

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

		For the three months ended March 31,	
	Notes	2022	2021
Cash flow used by operating activities			
Net (loss) for the period		\$(2,775,432)	\$(1,491,364)
Items not affecting cash:			
Share based payments	10(b)	938,136	108,563
Share of associated company losses	7	25,929	4,490
Fair value losses	7	6,900	13,428
Depreciation	6	7,993	7,762
Unrealized foreign exchange loss		56,032	3,003
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		27,057	(17,969)
Due to related parties		35,361	21,406
Accounts payable and accrued liabilities		(561,597)	87,840
Cash flow used by operating activities		(2,239,623)	(1,262,841)
Cash flow used by financing activities			
Share issue expenses		(1,557)	-
Cash flow used by financing activities		(1,557)	-
Effect of exchange rate changes on cash		(57,773)	(3,085)
Change in cash		(2,298,953)	(1,265,926)
Cash at the beginning of the period		4,446,850	4,924,567
Cash at the end of the period		\$2,147,897	\$3,658,641

Refer to accompanying notes to the consolidated financial statements.

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

	Note	Share capital	Shares to be issued reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2020		12,563,211	346,983	3,495,724	120,897	(6,313,809)	(4,722,717)	5,490,289
Loss for the period		-	-	-	-	(850,779)	(640,485)	(1,491,264)
Other comprehensive income:								
Foreign exchange gains		-	-	-	4,766	-	1,044	5,810
Total comprehensive loss		-	-	-	4,766	(850,779)	(639,441)	(1,484,454)
Transactions with owners:								
Issue of shares	10(a)	418,327	(346,983)	(71,344)	-	-	-	-
Share based payments	10(b)	-	-	108,563	-	-	-	108,563
		418,327	(346,983)	34,219	-	-	-	108,563
Balance at March 31, 2021		12,981,538	-	3,532,943	125,663	(7,164,588)	(5,362,258)	4,113,298
Balance at December 31, 2021		38,148,271	231,103	4,536,898	122,378	(39,034,055)	-	4,004,595
Loss for the period		-	-	-	-	(2,775,432)	-	(2,775,432)
Other comprehensive income:								
Foreign exchange gains		-	-	-	(16,535)	-	-	(16,535)
Total comprehensive loss		-	-	-	(16,535)	(2,775,432)	-	(2,791,967)
Issue of shares	10(a)	231,103	(231,103)	-	-	-	-	-
Share issue expenses	10(a)	(1,557)	-	-	-	-	-	(1,557)
Share based payments	10(b)	-	-	938,136	-	-	-	938,136
		229,546	(231,103)	938,136	-	-	-	936,579
Balance at March 31, 2022		38,377,817	-	5,475,034	105,843	(41,809,487)	-	2,149,207

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(Reported in US dollars unless indicated otherwise)

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 100% owned by Mkango. 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.

On January 3, 2018, Maginito Limited (“Maginito”) was incorporated under the laws of the British Virgin Islands (“BVI”). Maginito is 100% owned by Mkango. 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 Polska Sp. z o.o. (“Mkango Polska”) was incorporated under the laws of Poland and 100% ownership was acquired by the Company on March 22, 2021. Mkango Polska is developing a rare earth separation plant at Pulawy in Poland, working with Grupa Azoty Pulawy, Poland’s leading chemicals company and the second largest manufacturer of nitrogen and compound fertilizers in the European Union. The Pulawy Separation Plant is expected to process the purified mixed rare earth carbonate derived from Songwe Hill into separated rare earth oxides.

Mkango Rare Earths UK Limited (“Mkango UK”) was incorporated on June 23, 2021 under the laws of England and Wales. Mkango UK is 100% owned by the Company. Mkango UK was established to further develop the Company’s rare earths strategy in the UK.

Mkango and its subsidiaries are collectively referred to as the “Group” in these consolidated financial statements. Mkango and its subsidiaries are collectively referred to as the “Company” in these consolidated financial statements.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 30, 2022.

2. GOING CONCERN

These 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.

The Company’s consolidated cash balance at March 31, 2022 was \$2,147,897 and working capital was \$1,483,646. The Company has sufficient funding to complete the Definitive Feasibility Study based on budgeted expenditure and is reviewing future funding alternatives to provide investment for ongoing and new projects and to provide working capital sufficient to fund Mkango’s operations in the 12 months from the date of signing the financial statements.

Risks to the forecast include the risks of the timing of the publication of the Definitive Feasibility Study and the risk of being unable to secure funding. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. To address this material uncertainty, the Directors have identified a range of options to mitigate these risks and to ensure sufficient funding is available, including continuing discussions with funding providers.

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Notes to the Condensed Interim Consolidated Financial Statements

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2. GOING CONCERN (continued)

In considering going concern the Directors haven taken into account the possible ongoing impact of the COVID-19 pandemic, which has had a significant impact on businesses through the restrictions put in place by the governments of countries in which the Company operates regarding travel, business operations and isolation/quarantine orders.

The Definitive Feasibility Study is nearing completion and the Company believes that the remaining work streams will not be seriously impacted. The Company is targeting completion of the Definitive Feasibility Study in the second quarter of 2022. We note, however, that further COVID-19 outbreaks may impact this timing. The Directors do not consider the current conflict in Ukraine will have a significant impact on the Company at its current stage of development.

The directors are satisfied that the Company will have sufficient funding resources in order to meet its committed expenditure for at least the next 12 months and hence prepare these consolidated financial statements on a going concern basis.

These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These 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, 2022.

(b) Basis of presentation and measurement

These 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 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:

Entity Name	Functional Currency	Ownership Percentage
Lancaster Exploration (“Lancaster BVI”)	US Dollar	100% (2021: 100%)
Lancaster Exploration Limited (“Lancaster Malawi”)	Malawi Kwacha	100% (2021: 100%)
Maginito Limited (“Maginito”)	Pound Sterling	100% (2021: 100%)
MKA Exploration Limited (“MKA Exploration”)	US Dollar	100% (2021: 100%)
MKA Exploration Limited (“MKA Exploration Malawi”)	Malawi Kwacha	100% (2021: 100%)
Mkango Rare Earths UK Limited (“Mkango UK”)	Pound Sterling	100% (2021 – 100%)
Mkango Polska Sp. z o.o. (“Mkango Polska”)	Euros	100% (2021 – 100%)

The 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) Use of estimates and judgments

The preparation of the 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:

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3. BASIS OF PRESENTATION (continued)

(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.

(ii) Investment in associate

The investment in HyProMag Limited includes an equity investment and the option to acquire further shares. The option to acquire further shares was a condition of the subscription of 25% of the share capital of the associate and therefore considered as part of the investment.

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) Impairment of investment in associate

In considering whether there is any impairment to the carrying value of the investment in the associate, management considered whether there was any objective evidence of impairment. They reviewed the financial statements and budgeted cash flows for the associate which did not show any indications of financial difficulty and considered the technology applied by the associate which is innovative and proven. The Company concluded that no impairment indicators were evident.

(ii) Measurement of the fair value of options related to investment in associate

The Company has made estimates in determining the fair value of the option to acquire further shares in its associate. The Company uses different option-pricing models to determine the fair value of the option. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields 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 initial recognition and at each period end.

(e) Accounting standards, amendments and interpretations effective in 2022

The Group has not adopted any standards or interpretations in advance of the required implementation dates.

The following new standards, amendments or interpretations applicable to periods beginning on or after 1 January 2022 were each effective as of 1 January 2022:

Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16)

Onerous Contracts- Cost of Fulfilling a Contract (Amendments to IAS 37)

Annual Improvements to IFRS Standards 2018-2020

Reference to Conceptual Framework (Amendments to IFRS 3)

The adoption of these standards has had no effect on the financial results of the Company.

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future periods and which the Group has chosen not to adopt early, as detailed below. None of these are expected to have a significant effect on the Group.

	Effective Date
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) and	
Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023
Definition of Accounting Estimates (amendments to IAS8)	1 January 2023
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS12)	1 January 2023

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(Reported in US dollars unless indicated otherwise)

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, 2021. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2021.

5. GOVERNMENT REMITTANCES RECEIVABLE

	March 31, 2022	December 31, 2021
Recoverable within one year	11,239	11,644
Recoverable after one year	123,922	120,953
	135,161	132,597

The amount recoverable after one year relates to Malawian VAT which will be recovered from future mining taxes.

6. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at December 31, 2021	289	50,350	55,982	80,011	186,632
Balance at March 31, 2022	289	50,350	55,982	80,011	186,632
Accumulated Depreciation					
Balance at December 31, 2021	289	22,657	48,894	74,215	146,055
Depreciation	-	2,518	474	5,001	7,993
Balance at March 31, 2022	289	25,175	49,368	79,216	154,048
Net Book Value					
December 31, 2021	-	27,693	7,088	5,796	40,577
March 31, 2022	-	25,175	6,614	795	32,584

7. INVESTMENT IN ASSOCIATE

In January 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 \$391,650 (£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%. On May 1, 2020 the Company invested a further \$250,280 (£200,000) in HyProMag Limited under a convertible loan facility agreement dated January 9, 2020 to take its interest to 41.6%.

	March 31, 2022	December 31, 2021
Cost		
Balance at December 31, 2021	556,677	586,863
Additions	-	-
Share of post-acquisition losses	(25,929)	(7,620)
Fair value losses	(6,900)	(17,116)
Foreign exchange difference	(14,793)	(5,450)
Balance at March 31, 2022	509,055	556,677

MKANGO RESOURCES LTD

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(Reported in US dollars unless indicated otherwise)

7. INVESTMENT IN ASSOCIATE (CONTINUED)

	March 31, 2022	December 31, 2021
Cost or valuation		
Shares	555,334	570,127
Share of post-acquisition losses	(75,828)	(49,899)
Options	29,549	36,449
Total investment	509,055	556,677

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

	March 31, 2022	December 31, 2021
Assets and liabilities		
Non-current assets	286,029	340,049
Current assets	156,982	206,199
Current liabilities	(14,704)	(42,836)
Net assets	428,307	503,412
Company's share of net assets	178,004	209,419
Results		
Revenue	-	-
Losses	62,388	27,448

The results of HyProMag Limited have been equity accounted for and included in the financial statements of the Company.

8. RELATED PARTY TRANSACTIONS AND BALANCES

Key management compensation was as follows:

	March 31, 2022			March 31, 2021		
	Salaries	Director fees	Total	Consulting fees	Director fees	Total
A Lemon	55,312	-	55,312	56,998	-	56,998
W Dawes	55,312	-	55,312	56,998	-	56,998
D Linfield	-	23,466	23,466	-	11,000	11,000
A Reynolds	-	-	-	-	4,400	4,400
S Muir	-	6,250	6,250	-	4,400	4,400
S Treacy*	-	6,250	6,250	-	4,400	4,400
S Motteram	-	-	-	-	-	-
	110,624	35,966	146,590	113,996	24,200	138,196

* paid to Zenith Advisory Services Pty Ltd.

- 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, 2022, the Company had incurred costs of \$8,391 (March 31, 2021 - \$10,539) for reimbursed exploration and administrative expenses. As of March 31, 2021, the Company has an outstanding advance to Leo Mining in the amount of \$7,407 (March 31, 2021 - advance - \$4,019). The amount is unsecured and due on demand.

MKANGO RESOURCES LTD

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(Reported in US dollars unless indicated otherwise)

8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

b) The amounts due to related parties at March 31, 2022 were as follows:

March 31,	2022	2021
Due to related parties with common directors	12,403	381
Due to key management and directors	37,092	55,197
Total due to related parties	49,495	55,578

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2022	December 31, 2021
Accounts payable	475,948	1,011,257
Other payables	33,334	28,083
Accrued liabilities	173,559	205,098
	682,841	1,244,438

10. 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, 2019 and December 31, 2020		133,000,721	\$12,563,211
Warrants exercised	(i)	2,200,000	346,983
Issued in exchange for services	(ii)	866,666	248,477
Issued for cash	(iii), (v)	23,007,495	7,122,711
Stock options exercised	(iv)	1,340,000	94,589
Issued in exchange for share in subsidiaries	(vi)	54,166,666	17,772,300
Closing balance December 31, 2021		214,581,548	\$38,148,271
Issued in exchange for services	(vii)	625,000	229,546
Closing balance March 31, 2022		215,206,248	38,377,817

(i) In December 2020, the terms of 12,000,000 warrants held by Talaxis were amended to allow a cashless exercise of the warrants for 1,000,000 common shares. In addition, 1,200,000 warrants held by Zenith Advisory Services Pty. Ltd. were exercised for cash of £79,200 (\$106,897). On January 12, 2021, 2,200,000 shares were issued and an amount of \$346,983 was transferred from the shares to be issued reserve to share capital.

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(Reported in US dollars unless indicated otherwise)

10. SHARE CAPITAL (CONTINUED)

- (ii) On January 31, 2021, 325,000 common shares of the Company were issued under the terms of the advisory agreement with Bacchus Capital Advisers Limited and an amount of \$71,344 was credited to share capital. On November 1, 2021, a further 541,666 common shares of the Company were issued to Bacchus Capital Advisers Limited and an amount of \$177,133 was credited to share capital.
- (iii) On August 11, 2021, 18,424,163 common shares of the Company were issued at \$0.33 (GBP 0.24) for gross proceeds of \$6,130,702. Share issue expenses of \$464,502 were incurred including a share-based payment charge of \$38,019 relating to the issue of 351,765 broker warrants which are exercisable at \$0.33 (GBP 0.24) for a period of one year from the date of issue of August 16, 2021.
- (iv) On October 28, 2021, 1,340,000 common shares of the Company were issued for cash proceeds of \$94,589.
- (v) On November 1, 2021, 4,583,332 common shares of the Company were issued at \$0.33 (GBP 0.24) for gross proceeds of \$1,505,529. Share issue expenses of \$49,018 were incurred including a share-based payment charge of \$17,380 relating to the issue of 33,333 broker warrants which are exercisable at \$0.33 (GBP 0.24) for a period of one year from the date of issue of November 1, 2021.
- (vi) On November 1, 2021, 54,166,666 common shares of the Company were issued to Talaxis in exchange for a 49% interest in Lancaster BVI and a 24.5% interest in Maginito. Amounts of \$17,772,300 for shares issued to Talaxis and \$177,133 for share-settled transaction costs were credited to share capital. Share issue expenses of \$597,376 were incurred and debited to the retained deficit.
- (vii) On March 10, 2022, 625,000 common shares of the Company were issued under the terms of the advisory agreement with Bacchus Capital Advisers Limited and an amount of \$231,103 was transferred from the shares to be issued reserve to share capital. Share issue costs of \$1,557 were incurred in connection with the issue and debited to share capital.

b) 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 respect of stock options in the consolidated statements of comprehensive loss for the three months ended March 31, 2022 is \$347,783 (March 31, 2021 - \$108,563). 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, 2022</i>		<i>December 31, 2021</i>	
	<i>Options</i>	<i>Weighted– average exercise price</i>	<i>Options</i>	<i>Weighted– average exercise price</i>
Opening	15,730,000	\$0.18	11,820,000	\$0.06
Exercised	-	-	(1,340,000)	\$0.07
Granted – August 30, 2021	-	-	3,570,000	\$0.08
Granted – October 29, 2021	-	-	1,680,000	\$0.40
Total options	15,730,000	\$0.18	15,730,000	\$0.18
Vested options	12,515,000	\$0.11	11,552,500	\$0.09

The following provides a summary of the stock option plan as at March 31, 2022:

<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>
\$ 0.05 - 0.38	15,730,000	6.75	\$ 0.18	12,515,000

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10. SHARE CAPITAL (CONTINUED)

The following provides a summary of the stock option plan as at December 31, 2021:

<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>
\$ 0.05 – 0.38	15,730,000	7.0	\$ 0.18	11,552,500

(ii) Restricted Share Units

At March 31, 2022 the Company had 4,000,000 Restricted Stock Units outstanding. The Restricted Share Units will not vest unless the Company has filed a report in compliance with National Instrument NI 43-101 Standards of Disclosure for Mineral Projects supporting a feasibility study on the Company's Songwe Hill rare earths project in Malawi. Based on an expected filing date in Q2 2022 the Company has recognised a share-based payment charge of \$590,353 (March 31, 2021 - \$nil) during the period. This charge is calculated on the expectation that all the Restricted Share Units will vest.

c) Brokers warrants

The following provides a summary of the Company's outstanding broker warrants as at March 31, 2022 and December 31, 2021:

<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>
0.324	385,098	0.61	0.324	385,098

d) Reserves

Shares to be issued – this represents shares for which consideration has been received but are not issued yet.

Contributed surplus – this represents the cumulative balance of share-based payment expenses.

Accumulated Other Comprehensive Income – this represents gains/losses arising on retranslating the net assets of overseas operations into US Dollars.

Retained Deficit – this represents all other net gains/losses and transactions with owners not recognised elsewhere.

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 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 option to acquire shares in the associate is measured at level 3. The fair value of this financial instrument was determined using binomial pricing models for American style options. The key input to this model is the volatility rate which was 78% which is an estimate based on volatility rates of comparable companies to Mkango Resources Limited. A 10% increase in the volatility rate would result in an additional credit to the income statement of \$10,136 and a 10% decrease would result in a charge to the income statement of \$8,980. 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.

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, 2022 and December 31, 2021, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	March 31, 2021	December 31, 2021
Cash:		
Canadian Dollar	37,441	87,763
United States Dollar	107,437	82,950
Pound Sterling	1,839,475	4,229,086
Euro	15,988	16,914
Malawian Kwacha	982	23,972
Australian Dollar	146,574	6,165
	2,147,897	4,446,850

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 \$102,000 (December 31, 2021: \$217,000).

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its cash at bank. 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. 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.

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11. FINANCIAL INSTRUMENTS (CONTINUED)

The following table outlines the maturities of the Company's financial liabilities as at March 31, 2022:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	682,841	682,841	-
Due to related parties	49,495	49,495	-

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2021:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	1,244,438	1,244,438	-
Due to related parties	14,134	14,134	-

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 were 150,000,000 Kwacha (\$184,508) over two years which have been met. On June 1, 2021 the Phalombe Licence was transferred into 11 retention licences covering a total of 250 sq km. Each retention licence is for a 5 year period from the June 1, 2021 and will be transferred into a mining licence once the Feasibility Study and ESHIA have been finalized.

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 was subsequently renewed for a further 2 years to September 9, 2021. The Company has subsequently been granted 4 retention licences for a period of five years to November 9, 2026.

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 was due for renewal on November 10, 2020 and has been renewed for a period of two years to November 10, 2022. The commitment for exploration expenses with the Government of Malawi under the license is 25,000,000 Kwacha (\$30,692) over three years which had been met by March 31, 2022.

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 and the application to renew in respect of a reduced area of 650.17 square kilometres has been made. The commitment for exploration expenses with the Government of Malawi under the license is 50,000,000 Kwacha (\$61,384) over three years which had been met by March 31, 2022.

The Company is continuing to meet the terms and conditions of its 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.

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13. LOSS PER SHARE

The calculation of basic earnings per share at March 31, 2022 was based on the loss attributable to ordinary shareholders of \$2,775,432 (March 31, 2021: loss \$850,779) and a weighted average number of Ordinary Shares outstanding during the period ended 31 March 2022 of 214,727,381 (March 31, 2021: 135,218,221) calculated as follows:

	March 31, 2022	March 31, 2021
Loss attributable to the ordinary shareholders	\$2,775,432	\$850,779
Number of Ordinary shares outstanding at beginning of year	214,581,548	133,000,721
Effect of shares issued during the period	145,833	2,217,500
Weighted average number of Ordinary shares outstanding	214,727,381	135,218,221
Loss per share	0.013	0.006

14. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of \$2,149,207, as at March 31, 2022 (December 31, 2021 – \$4,004,595). The operations of the Company for the next 12 months will be funded from funding alternatives currently being reviewed for ongoing and new projects.

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.

15. SUBSEQUENT EVENTS

On May 30, 2022 the Company announced the signing of a non-binding term sheet with CoTec Holdings Corp ("CoTec"), an ESG-focused company investing in innovative technologies, led by Julian Treger and Braam Jonker, in relation to investments by CoTec into Mkango and Mkango's subsidiary, Maginito Limited ("Maginito"), and collaboration in downstream rare earth technologies (the "Transactions"). The Transactions are expected to include the following key components:

- CoTec will invest £2 million (C\$3.2 million) into Mkango by way of a two-year, unsecured convertible note ("Mkango Note") with 5% interest, convertible into Mkango shares at 27p each, providing Mkango with additional working capital as it advances financing discussions for the Songwe Hill rare earths project ("Songwe Hill") in Malawi and the Pulawy separation plant project in Poland
- CoTec will also invest £1.5 million (C\$2.4 million) into Maginito, equating to a 10% equity stake in Maginito for the purposes of strategic investments in downstream rare earth technologies and working capital
- Restructuring resulting in Mkango's wholly owned subsidiary, Mkango Rare Earths UK Limited, ("Mkango UK") becoming a wholly owned subsidiary of Maginito
- In consideration of a four-month exclusivity period, CoTec will advance £500,000 (C\$805,000), no later than June 20, 2022 (the "Advance"), offsetable against and carrying largely the same terms as the Mkango Note
- Mkango and CoTec will enter into a co-operation agreement regarding future investments in rare earth processing technology opportunities in the United States
- The Transactions are subject to various conditions, including definitive documentation, restructuring in relation to Mkango UK and TSX Venture Exchange approval. There can be no certainty that any agreement will be reached nor as to the final terms of the proposed investment