Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the twelve months ended 31 December 2022 and 31 December 2021

Independent Auditor’s Report
To the Shareholders of Mkango Resources Ltd

Opinion

We have audited the consolidated financial statements of Mkango Resources Ltd (the ‘Parent Company’) and its subsidiaries (the ‘Group’), which comprise the consolidated statements of financial position as at 31 December 2022 and 2021, and the consolidated statements of comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 3c to the financial statements, which explains that certain comparative information presented for the year ended 31 December 2021 has been restated. Our opinion is not modified in respect of this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates there are risks to the cash flow forecast including the risk of higher than anticipated costs and the risk of being unable to secure future funding. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter based on our assessment of the significance of the matter outlined above. Our audit procedures in respect of this matter included:

- Obtaining Management’s cash flow forecasts for the period to August 2024 and assessing the key underlying assumptions, including forecast levels of expenditure and exploration costs used in preparing these forecasts. In doing so, we considered actual costs incurred in the financial year 2022 against budgeted and contracted commitments.
- Performing sensitivity analysis in respect of key assumptions underpinning the forecasts, including operational costs and level of exploration expenditure and assessing the levels of funding required under each sensitivity.
- Corroborating the opening cash position in the forecast to bank statements.
- Assessing the underlying integrity of the cash flow forecasts.
- Discussing with the Directors and the Board the Group’s strategy to continue to ensure funds are available to the Group to fund its operations.
- Reviewing and considering the adequacy of the disclosure within the consolidated financial statements relating to Management’s assessment of the going concern basis of preparation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Recognition and valuation of CoTec Convertible Loan Note (See Notes 3, 11 and 12)

Description of the key audit matter	How the key audit matter was addressed in the audit
As disclosed in Note 11, as at 31 December 2022 CoTec have advanced $1,828,776 by way of advanced convertible loan notes. The investment in Mkango is a two-year secured convertible note with 5% interest. The principal is convertible to Mkango shares valued at £0.27 each and the interest is convertible at the higher of £0.27 or the closing price of the shares on the date preceding conversion. Under relevant accounting standards the note has two components: a liability host contract plus a separate conversion feature. The valuation of the conversion feature includes various estimates and judgements, therefore on this basis we consider this to be a key audit matter.	Our audit procedures included the following: • Assessing the accounting for the convertible loan note by applying the requirements of the relevant accounting standards to the facts pertaining to the convertible loan note. • Reviewing the valuation technique and methodology for the convertible loan note including the conversion feature by engaging an internal specialist team to assist with the review of the valuation technique and methodology against industry practice. Assessing the estimates such as volatility and interest rates used in the valuation calculation to market data. • Performing an assessment on the competence, objectivity and independence of the third-party expert used by Management. • Reviewing the disclosures in the consolidated financial statements against the disclosure requirements of the applicable accounting Standards.

2. Carrying value of investment in HyProMag (Notes 3, 4 and 8)

Description of the key audit matter	How the key audit matter was addressed in the audit

As disclosed in Notes 4 and 8, as at 31 December 2022 Mkango Resources's subsidiary Maginito has an investment of $396,992 in HyProMag Limited. The investment in HyProMag is equity accounted for as an associate.
 	
Management and the Directors are required to assess whether there are potential indicators of impairment of the Group's investment at each reporting date and, if potential indicators of impairment are identified, Management are required to perform a full assessment of the recoverable value of the investment in accordance with the requirements of the relevant accounting standard.
 	
As detailed in Note 3, there are judgements and inherent uncertainties involved in assessing the investment for indicators of impairment. Management have performed an impairment indicator review under applicable accounting standards and have not identified any indicators of potential impairment.
 	
We determined the carrying value of the investment in HyProMag to be a key audit matter given the significant judgements required in respect of the assessment of indicators of impairments which affect the carrying value of the investment.
	Our audit procedures included the following:
	
	• Obtaining and reviewing Management's impairment indicator review and undertaking the following work on Management's impairment indicator review:
	  o Discussing with Management the future plans for HyProMag;
	  o Comparing the trading performance against budget/plan for FY 2022 in order to evaluate the quality of management's forecasting and where under performance against budget/plan was highlighted evaluating the impact on the forecasts.
	  o Reviewing any public announcements relating to the HyProMag to determine the present and future business plans that provide indication of value in Hypromag.
	  o Reviewing future budgets to determine that operating cash inflows are expected in the future for HyProMag and challenging the key assumptions included in the budget such as grant income and expenses by comparing the level to expectations from prior periods and inspecting grant offer letters.
	  o Reviewing the post year end third party investment into HyProMag via Maginito and recalculating the value of Mkango's investment based on the implied value from this investment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the management discussion and analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Jill MacRae.

/s/BDO LLP

BDO LLP
Chartered Professional Accountants
London, United Kingdom
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

1 May 2023

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

	Notes	As at 31 December 2022	As at 31 December 2021 (restated)
ASSETS			
Current			
Cash		493,703	4,446,850
Government remittances receivable	5	13,736	11,644
Other receivables		24,157	1,962
Prepaid expenses and accrued income		144,140	84,504
Due from related parties	9	4,646	-
Total current assets		680,382	4,544,960
Non-current			
Intangible exploration and evaluation assets	6	273,763	-
Property, plant and equipment	7	48,199	40,577
Investment in associate	8	396,992	556,677
Government remittances receivable	5	127,565	120,953
Total non-current assets		846,519	718,207
TOTAL ASSETS		**1,526,901**	**5,263,167**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	773,245	1,244,438
Due to related parties	9	186,426	14,134
Total current liabilities		959,671	1,258,572
Non-current			
Convertible loan note	11	1,603,696	-
Embedded derivative liability	12	129,650	-
Total non-current liabilities		1,733,346	-
TOTAL LIABILITIES		2,693,017	1,258,572
SHAREHOLDERS' EQUITY			
Share capital	13	38,376,817	38,148,271
Shares to be issued reserve		-	231,103
Contributed surplus		5,120,801	4,156,813
Accumulated other comprehensive income		(23,801)	122,378
Retained deficit		(44,639,933)	(38,653,970)
TOTAL EQUITY		(1,166,116)	4,004,595
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,526,901**	**5,263,167**

The notes on pages 11 to 31 are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Alexander Lemon, President, Director

Derek Linfield, Chairman, Director

1 May 2023

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

	Notes	For the twelve months ended: 31 December 2022	31 December 2021 (restated)
Expenses			
General and administrative		(3,470,482)	(3,135,979)
Mineral project expenditures		(2,402,070)	(6,013,085)
Total Expenses		**(5,872,552)**	**(9,149,064)**
Other items			
Interest income		25	11,134
Share of associated company losses	8	(77,338)	(7,620)
Fair value losses	8	(24,315)	(17,116)
Foreign exchange loss		(134,567)	(164,322)
Fair value adjustment – embedded derivative	12	122,784	-
Loss before tax		**(5,985,963)**	**(9,326,988)**
Income tax	16	-	-
Loss after tax		**(5,985,963)**	**(9,326,988)**
Loss attributable to			
Common shareholders		(5,985,963)	(6,401,477)
Non-controlling interest		-	(2,925,511)
Attributable loss		**(5,985,963)**	**(9,326,988)**
Other comprehensive profit/(loss)			
Items that may be reclassified subsequently to net loss:			
Exchange difference on translating foreign operations		(146,179)	(2,225)
Total comprehensive loss		**(6,132,142)**	**(9,329,213)**
Total comprehensive loss attributable to			
Common shareholders		(6,132,142)	(6,399,996)
Non-controlling interest		-	(2,929,217)
Attributable comprehensive loss		**(6,132,142)**	**(9,329,213)**
Loss per share - basic and diluted	17	**(0.028)**	**(0.042)**

The notes on pages 11 to 31 are an integral part of these consolidated financial statements.

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

	Notes	For the twelve months ended: 31 December 2022	31 December 2021 (restated)
Cash flow used by operating activities			
Loss for the period		(5,985,963)	(9,326,988)
Adjustments for:			
Share based payments		963,988	991,063
Share of associated company losses	8	77,338	7,620
Fair value losses	8	24,315	17,116
Depreciation	7	18,394	31,544
Fair value adjustment – embedded derivative		(122,784)	-
Unrealised foreign exchange loss/(profit)		176,857	190,775
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		(95,182)	(15,640)
Due to related parties		172,292	(20,038)
Accounts payable and accrued liabilities		(367,776)	989,510
Cash flow used by operating activities		(5,138,521)	(7,135,038)
Cash flow used by investing activities			
Acquisition of intangible assets	6	(170,351)	-
Acquisition of property, plant and equipment	7	(26,016)	(7,585)
Cash flow used by investing activities		(196,367)	(7,585)
Cash flow generated by financing activities			
Proceeds from CoTec advance notes	11,12	1,828,776	-
Share issue proceeds		-	7,636,232
Stock options exercised		-	94,589
Share issue expenses		(2,557)	(878,365)
Cash flow generated by financing activities		1,826,219	6,852,456
Effect of exchange rate changes on cash		(444,466)	(187,550)
Change in cash		(3,953,135)	(477,717)
Cash at the beginning of the period		4,446,850	4,924,567
Cash at the end of the period		493,703	4,446,850

The notes on pages 11 to 31 are an integral part of these consolidated financial statements.

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

	Share Capital	Shares to be issued reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling interest ("NCI")	Total
Balance at 31 December 2020	**12,563,211**	**346,983**	**3,495,724**	**120,897**	**(6,313,809)**	**(4,722,717)**	**5,490,289**
Loss for the year (restated)	-	-	-	-	(6,401,477)	(2,925,511)	(9,326,988)
Other comprehensive income:							
Foreign exchange gains/(losses)	-	-	-	1,481	-	(3,706)	(2,225)
Total comprehensive loss (restated)	-	-	-	1,481	(6,401,477)	(2,929,217)	(9,329,213)
Transactions with owners:							
Issue of shares	7,983,215	(346,983)	-	-	-	-	7,636,232
Share issue costs	(513,521)	-	55,399	-	-	-	(458,122)
Issue of shares on exercise of options	94,589	-	(82,926)	-	82,926	-	94,589
Share based payments (restated)	71,344	231,103	688,616	-	-	-	991,063
Acquisition of NCI	17,949,433				(26,021,610)	7,651,934	(420,243)
Total transactions with owners (restated)	25,585,060	(115,880)	661,089	-	(25,938,684)	7,651,934	7,843,519
Balance at 31 December 2021 (restated)	**38,148,271**	**231,103**	**4,156,813**	**122,378**	**(38,653,970)**	**-**	**4,004,595**
Loss for the year	-	-	-	-	(5,985,963)	-	(5,985,963)
Other comprehensive income:							

Foreign exchange gains/(losses)	-	-	-	(146,179)	-	-	(146,179)
Total comprehensive loss	-	-	-	(146,179)	(5,985,963)	-	(6,132,142)
Transactions with owners:							
Issue of shares	231,103	(231,103)	-	-	-	-	-
Share issue expenses	(2,557)	-	-	-	-	-	(2,557)
Share-based payments	-	-	963,988	-	-	-	963,988
Total transactions with owners	228,546	(231,103)	963,988	-	-	-	961,431
Balance at 31 December 2022	**38,376,817**	**-**	**5,120,801**	**(23,801)**	**(44,639,933)**	**-**	**(1,166,116)**

The notes on pages 11 to 31 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Mkango Resources Ltd ("Mkango") was originally incorporated under the name Alloy Capital Corp. ("Alloy") on 13 November 2007, under the laws of the Province of Alberta, Canada. On 10 December 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 15 October 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 is rare earth element and associated minerals exploration and development with four properties in the Republic of Malawi, 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").

On 3 August 2007, Lancaster BVI was incorporated by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands 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 19 May 2011, Lancaster Exploration Limited ("Lancaster Malawi") was incorporated under the laws of Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI.

On 3 January 2018, Maginito Limited ("Maginito") was incorporated under the laws of the British Virgin Islands. 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.

On 25 July 2018, MKA Exploration Limited ("MKA Exploration") was incorporated by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands 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 6 May 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 Mkango on 22 March 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 fertilisers in the European Union. The Pulawy Separation Plant is expected to process the purified mixed rare earth carbonate derived from the Songwe Hill project in Malawi, separating it into rare earth oxides.

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

The consolidated financial statements were authorised for issuance by the Board of Directors of the Company on 1 May 2023.

2. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

The Company's consolidated cash balance at 31 December 2022 was $493,703 and the Company had net current liabilities of $279,289. On 27 February 2023, the Company raised gross proceeds of approximately $4.2 million (£3.5 million) via a placing and subscription totalling 28,000,000 new common shares without par value each in the Company at a price of 12.5 pence ("p") (approximately $0.15) per share.

Additionally, post year end in March 2023, CoTec Holding Corp ("**CoTec**") invested £1.5 million into Mkango's subsidiary, Maginito Limited, for a 10% interest in Maginito.

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. Risks to the cash flow forecast include the risks of higher costs than anticipated and the risk of being unable to secure future 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. With the assistance of its financial advisers, the Company continues to evaluate funding options on an on-going basis.

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").

(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) Prior period adjustment

On 29 October 2021, 4,000,000 Restricted Share Units were granted to Alex Lemon and Will Dawes. The vesting period was originally determined as 244 days. As such, the share option charge relating to this grant was fully expensed in FY2021 and FY2022. During the year ended 31 December 2022, management identified that the vesting period was incorrect and should have been ten years.

In the comparatives for the year ended 31 December 2021, the following adjustments have been made to the Group:

Consolidated statement of financial position and consolidated statement of changes in equity

A decrease of $380,085 in contributed surplus from $4,536,898 to $4,156,813 and a decrease of $380,085 in retained deficit from $39,034,055 to $38,653,970.

Consolidated statement of comprehensive loss

A decrease of $380,085 in general and administrative expenses resulting in a decrease in comprehensive loss for the year from $9,709,298 to $9,329,213.

Consolidated statement of cash flows

Within the cash flow used by operating activities, a decrease of $380,085 in comprehensive loss for the year from $9,709,298 to $9,329,213 and a resulting corresponding decrease in non-cash flow items: share based payments decreased from $1,371,148 to $991,063.

(d) 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”)	Malawi Kwacha	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%)
Mkango ServiceCo UK Limited (“Mkango ServiceCo”) – incorporated 9 December 2022	Pound Sterling	100% (2021: n/a)

The consolidated financial statements of the Company include the accounts of the Company and its seven subsidiaries listed above. All intercompany balances and transactions are eliminated upon consolidation.

(e) 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:

(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. Management reviewed the financial statements and budgeted cash flows for the associate as well as the implied valuation based on the post year end investment into Maginito by CoTec, and these did not show any indications of financial difficulty. Management considered the technology applied by the associate which is innovative and proven. The Company concluded that no impairment indicators were evident.

(ii) Carrying value of exploration and evaluation intangible assets

The carrying value was $273,763 at 31 December 2022 (2021: Nil). The group has determined that there are no indicators of impairment present in accordance with *IFRS 6: Exploration for and evaluation of mineral interests.* Management’s conclusion required judgement based on the current status and expected future progress of the exploration and evaluation intangible assets.

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 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 used Black Scholes model 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 historical 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.

(ii) Share options

The Company issues share options to key members of staff and directors. The Company used a Black Scholes model to determine the fair value of the share options. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and time to maturity.

(iii) Valuation of embedded derivative financial liability

The Company has made estimates in determining the fair value of the embedded conversion feature portion of the CoTec funding and has used the Black Scholes model to determine the fair value of the embedded derivative financial liability. Inputs to the model are subject to various estimates about volatility, interest rates and expected life of the instrument issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historical 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.

(f) 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 were adopted from 1 January 2022:

Annual Improvements to IFRS: 2018-2020 Cycle

Conceptual Framework for Financial Reporting (Amendments to IFRS 3)

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)

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

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

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. The Company is still evaluating these new standards, however we do not expect them to have a significant effect on the Group, in particular:

	Effective Date
IFRS 17 Insurance Contracts	1 January 2023
IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies)	1 January 2023
IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates)	1 January 2023
IAS 12 Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)	1 January 2023
IFRS 16 Leases (Amendment - Liability in a Sale and Leaseback)	1 January 2024
IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current)	1 January 2024
IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)	1 January 2024

4. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's consolidated financial statements.

(a) Mineral exploration expenditures and property and equipment assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Exploration and evaluation costs which would typically include pre-licensing, preliminary property evaluation, drilling and directly attributable general and administrative costs are recognised in the consolidated statement of comprehensive loss as mineral exploration expenditures, including the costs of acquiring licenses pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors, including the assignment of proven reserves. Upon determination of technical feasibility and commercial viability, the costs incurred prospectively are capitalized to a separate category within property and equipment referred to as a development mineral property.

Property and equipment ("P&E") expenditures

Items of property and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Property and equipment are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU") for impairment testing. Property and equipment is comprised of office and computer equipment, plant and equipment and vehicles.

Property and equipment assets, categorized as mineral interests, are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Gains or losses on disposal of an item of property and equipment, including mineral interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised within the consolidated statement of comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognised in the consolidated statement of comprehensive loss, as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and is accumulated on a property-by-property basis. The carrying amount of any replaced or sold component is derecognised.

(iii) Depletion and depreciation

The net carrying value of development or production assets will be depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those mineral reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Corporate assets, consisting of office equipment, computer equipment, plant and machinery and vehicles are recorded at cost and are depreciated over the estimated useful life of the asset on a straight-line basis over a four-year period and plant and equipment over five years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(b) Investment in associate

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 recognises its initial investment at cost and the carrying amount is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income after the date of acquisition. The investment in associates as at 1 January 2021 included a convertible loan asset and an option to acquire further shares, both of which were fair valued through profit and loss. The convertible loan was converted during the year ended 31 December 2021 (see Note 8 for further details).

(c) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. The Company records mineral exploration expenditures net of grant proceeds. Grant funding received in advance of incurring eligible mineral exploration expenditures are recorded as grant received in advance on the consolidated statement of financial position.

(d) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into CGU's. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less costs of disposal is the amount obtained from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive loss. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro rata basis.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognised. Reversal of impairment losses are recognised in the consolidated statement of comprehensive loss.

(e) Decommissioning obligation

The Company's activities may give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at 31 December 2021 and 2020, no decommissioning obligation has been recognised.

(f) Foreign currency translation

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the date of the consolidated statement of financial position. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in profit or loss.

Foreign currency translation adjustments are required each reporting period for subsidiaries of the Company, having functional currencies which differ from the presentation currency. Assets and liabilities are translated at exchange rates in effect at the date of the consolidated statement of financial position and expenses are translated at the average rate for the year with gains or losses recognised in other comprehensive loss.

(g) Taxation

Tax expense comprises current and deferred tax. Tax expense is recognised in the consolidated statement of comprehensive loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted (or substantively enacted) at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which a temporary difference can be utilized. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Per-share amounts

Basic per share amounts are calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted per share amounts are determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments. All instruments that could have a dilutive effect are considered anti-dilutive when the Company is in a loss position. In addition, options and warrants have a dilutive effect only when the average market price of the Company's common shares during the year exceed the exercise price of the options and warrants (i.e. they are "in the money").

(i) Share-based payments

The Company has issued options to directors, officers, employees, consultants and strategic partners to purchase common shares. The fair value of options, and warrants determined using the Black-Scholes option pricing model on the date they are granted to employees, is recognised as compensation expense with a corresponding increase in contributed surplus over the vesting period. Options and warrants to non-employees are measured at the fair value of the goods or services received, unless the fair value of the options and warrants are more reliably determinable, and are recognised each reporting date as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated based on historical forfeitures and is adjusted to reflect the estimated number of options and warrants that vest. Volatility is estimated based on historical volatility trends of the Company's own stock, as well as the stock of selected industry peers.

(j) Cash

Cash is comprised of cash on hand.

(k) Provisions

The Company makes a distinction between:

- Provisions: Present obligations, either legal or constructive, arising from past events, the settlement of which is expected to give rise to an outflow of resources, the amount and timing of which are uncertain; and,

- Contingent liabilities: Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events, the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources.

- Provisions are recognised when the liability or obligation, giving rise to the indemnity or payment arises, to the extent that its amount can be reliably estimated and it is probable that the commitment will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather disclosed.

(l) Financial instruments

Classification and measurement of financial assets and liabilities

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. Management determines the classification of its financial assets at initial recognition. There are three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification categories are as follows:

Financial assets – The classification of financial assets is determined by the Company at initial recognition. The classification categories are as follows:

- A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised costs using the effective interest method.

- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortised cost or fair value through other comprehensive income.

    - Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

Financial liabilities – The classification of financial liabilities is determined by management at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortised cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in the consolidated statement of comprehensive income.

- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognised in the consolidated statement of comprehensive income.

- Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

Impairment of financial assets

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables.

5. GOVERNMENT REMITTANCES RECEIVABLE

	31 December 2022	31 December 2021
Recoverable within one year	13,736	11,644
Recoverable after one year	127,565	120,953
	141,301	132,597

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

6. INTANGIBLE ASSETS

	Exploration & evaluation assets
Cost	
Balance at 31 December 2021	-
Additions	273,763
Balance at 31 December 2022	**273,763**

7. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at 31 December 2021	289	50,350	55,982	80,011	186,632
Additions	-	22,229	4,274	-	26,503
Foreign exchange differences	-	(489)	-	-	(489)
Balance at 31 December 2022	**289**	**72,090**	**60,256**	**80,011**	**212,646**
Accumulated Depreciation					
Balance at 31 December 2021	289	22,657	48,894	74,215	146,055
Depreciation	-	10,161	2,437	5,796	18,394
Foreign exchange differences	-	(2)	-	-	(2)
Balance at 31 December 2022	**289**	**32,816**	**51,331**	**80,011**	**164,447**
Net Book Value					
31 December 2021	-	27,693	7,088	5,796	40,577
31 December 2022	**-**	**39,274**	**8,925**	**-**	**48,199**
Cost					
Balance at 31 December 2020	289	50,350	48,397	80,011	179,047
Additions	-	-	7,585	-	7,585
Balance at 31 December 2021	**289**	**50,350**	**55,982**	**80,011**	**186,632**
Accumulated Depreciation					
Balance at 31 December 2020	289	12,587	47,423	54,212	114,511
Depreciation	-	10,070	1,471	20,003	31,544
Balance at 31 December 2021	**289**	**22,657**	**48,894**	**74,215**	**146,055**
Net Book Value					
31 December 2020	-	37,763	974	25,799	64,536
31 December 2021	-	**27,693**	**7,088**	**5,796**	**40,577**

8. 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 invested an initial $391,650 (£300,000) for a 25% interest in

HyProMag and had an option to invest a further £1 million to increase its interest up to 49%. On 1 May 2020, the Company invested a further $250,280 (£200,000) in HyproMag under a convertible loan facility agreement dated 9 January 2020. The convertible loan was converted at the option of HyproMag on 21 October 2021, increasing Mkango's interest to 41.6%.

	31 December 2022	31 December 2021
Cost		
Opening balance	556,677	586,863
Share of post-acquisition losses	(77,338)	(7,620)
Fair value losses	(24,315)	(17,116)
Foreign exchange difference	(58,032)	(5,450)
Closing balance	**396,992**	**556,677**

	31 December 2022	31 December 2021
Cost or valuation		
Shares	508,402	570,127
Share of post-acquisition losses	(120,133)	(49,899)
Options	8,723	36,449
Total investment	**396,992**	**556,677**

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

	31 December 2022	31 December 2021
Assets and liabilities		
Non-current assets	120,485	340,049
Current assets	108,533	206,199
Current liabilities	(7,355)	(42,836)
Net assets	221,663	503,412
Company's share of net assets	92,212	209,419
Income statement		
Losses	(185,908)	(65,981)
Company's share of losses	(77,338)	(27,448)

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

9. RELATED-PARTY TRANSACTIONS AND BALANCES

(a) Key management compensation was as follows:

Year ended 31 December 2022	Consulting fees/ Salaries	Director fees	Other compensation	Share option charge	Total
A Lemon	234,952	-	-	286,535	521,487
W Dawes	223,629	-	-	286,535	510,164
D Linfield	-	86,248	-	108,555	194,803
3A Reynolds	-	-	-	-	-
S Muir	-	25,000	-	27,139	52,139
S Treacy*	-	25,000	-	27,139	52,139
R Sewell**	104,877	-	-	15,126	120,003
S Motteram	-	-	-	-	-
Total key management compensation	563,458	136,248	-	751,029	1,450,735

Year ended 31 December, 2021 (restated)	Consulting fees/ Salaries	Director fees	Other compensation	Share option charge	Total
A Lemon	227,137	-	-	139,493	366,630
W Dawes	227,137	-	-	139,493	366,630

D Linfield	-	59,577	-	146,272	205,849
A Reynolds	-	15,739	80,832	-	96,571
S Muir	-	21,950	-	39,098	61,048
S Treacy*	-	21,950	-	39,098	61,048
R Sewell**	-	-	-	-	-
S Motteram	-	-	-	-	-
Total key management compensation	454,274	119,216	80,832	503,454	1,157,776

*paid to Zenith Advisory Services Pty Limited
**appointed 24 June 2022

(b) Share options granted to key management were as follows:

Year ended 31 December 2022	Outstanding at beginning of year	Granted	Exercised	Outstanding at end of year
A Lemon	4,200,000	-	-	4,200,000
W Dawes	4,200,000	-	-	4,200,000
D Linfield	3,160,000	-	-	3,160,000
A Reynolds	-	-	-	-
S Muir	1,195,000	-	-	1,195,000
S Treacy	1,195,000	-	-	1,195,000
R Sewell	-	350,000	-	350,000
S Motteram	-	-	-	-
	13,950,000	350,000	-	14,300,000

Year ended 31 December 2021	Outstanding at beginning of year	Granted	Exercised	Outstanding at end of year
A Lemon	2,960,000	1,240,000	-	4,200,000
W Dawes	2,960,000	1,240,000	-	4,200,000
D Linfield	2,160,000	1,000,000	-	3,160,000
A Reynolds	1,240,000	-	(1,240,000)	-
S Muir	945,000	250,000	-	1,195,000
S Treacy	945,000	250,000	-	1,195,000
S Motteram	-	-	-	-
	11,210,000	3,980,000	(1,240,000)	13,950,000

(c) Other related-party transactions

Leo Mining and Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers, namely William Dawes, Alexander Lemon and Shaun Treacy. Leo Mining pays certain costs such as rental on behalf of Mkango. Mkango reimburses Leo Mining for these costs. During the year ended 31 December 2022 Mkango reimbursed Leo Mining $39,480 (31 December 2021: $59,975) for reimbursable exploration and administrative expenses.

As of 31 December 2022, the Company has an outstanding advance to Leo Mining in the amount of $4,646 (31 December 2021: $5,764). The amount is unsecured and due on demand.

The amounts due to related parties were as follows:

	31 December 2022	31 December 2021
Due from related parties with common directors	-	(5,764)
Due to key management and directors	186,426	19,898
Total due to related parties	186,426	14,134

The amounts due from related parties were as follows:

	31 December 2022	31 December 2021
Due from related parties with common directors (Leo Mining)	4,646	-

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2022	31 December 2021
Accounts payable	574,068	1,011,257
Other payables	106,308	28,083
Accrued liabilities	92,869	205,098
	773,245	1,244,438

11. CONVERTIBLE LOAN NOTE

In the year ended 31 December 2022, Mkango issued convertible notes of 5% at a total value of 1,828,776 (£1,547,500). The principal amount of the loan is repayable on 30 June 2024 or can be converted at any time into shares at the holder's option at the rate of $0.33 (£0.27) per share. Accrued interest is repayable on 30 June 2024 or can be converted at any time into shares at the holder's option at the higher of $0.33 (£0.27) or the closing share price on the date immediately preceding the date of conversion.

The convertible loan note is classified as a hybrid financial instrument, being a debt host instrument with an embedded derivative liability. The conversion feature meets the definition of a financial liability as per International Accounting Standard 32 as it is a derivative contract that may be settled other than by the exchange of fixed amount of cash for a fixed number of the entity's own equity instruments.

The value of the derivative liability component and the host liability were determined at the date the instrument was issued. The fair value of the derivative liability component at inception and year end was calculated using the Black-Scholes model. The derivative liability component is a financial liability measured at fair value through profit or loss, The liability component is a financial liability measured at amortised cost.

	31 December 2022	31 December 2021
Opening balance	-	-
Received during the year	1,603,696	-
Closing balance	1,603,696	-

12. DERIVATIVE LIABILITY MEASURED AT FAIR VALUE

The derivative liability component of the convertible loan note in note 11 is measured at fair value and is measured at Level 3. The fair value of this financial instrument was determined using Black-Scholes. The key input to this model is the volatility rate of 73% which is an estimate based on historical volatility rates of Mkango Resources Limited. A 10% increase in the volatility rate would result in an additional charge to the income statement of $38,120 and a 10% decrease would result in an additional credit to the income statement of $40,257.

	Level 3	
	31 December 2022	31 December 2021
Opening balance	-	-
Recognised at inception	252,434	-
Fair value adjustment	(122,784)	-
Closing balance	129,650	-

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

As at 31 December 2022	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years
Derivative financial liabilities	-	-	129,650

13. SHARE CAPITAL

(a) Common shares

The Company is authorised 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 31 December 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 31 December 2021		**214,581,548**	**38,148,271**
Issued in exchange for services	(vii)	625,000	228,546
Closing balance 31 December 2022		**215,206,548**	**38,376,817**

(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). Accordingly, on 12 January 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.

(ii) On 31 January 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 1 November 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 11 August 2021, 18,424,163 common shares of the Company were issued at $0.33 (£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 (£0.24) for a period of one year from the date of issue of 16 August 2021.

(iv) On 28 October 2021, 1,340,000 common shares of the Company were issued for cash proceeds of $94,589.

(v) On 1 November 2021, 4,583,332 common shares of the Company were issued at $0.33 (£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 (£0.24) for a period of one year from the date of issue of 1 November 2021.

(vi) On 1 November 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 transaction costs that were settled through the issuing of shares were credited to share capital. Share issue expenses of $597,376 were incurred and debited to the retained deficit.

(vii) On 10 March 2022, 625,000 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 18 December 2020 to 18 December 2021. An amount of $228,546 was credited to share capital.

(b) Share-based payments

(i) Stock options

The Company has a rolling stock option plan (the "Plan") established to recognise 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 recognised in respect of stock options in the consolidated statements of comprehensive loss for the year ended 31 December 2022 is $812,444 (31 December 2021: $661,386). The stock options pursuant to the Plan vest over a term of 18 - 24 months.

The following tables provide a summary of information about the Company's stock option plan.

As at 31 December 2021	**Options**	**Weighted-average exercise price (USD)**
Opening	11,820,000	0.06
Exercised	(1,340,000)	0.07
Granted – 30 August 2021	3,570,000	0.28
Granted – 29 October 2021	1,800,000	0.37
Total options	15,850,000	0.18
Vested options	11,552,500	0.09

As at 31 December 2022	**Options**	**Weighted-average exercise price (USD)**
Opening	15,850,000	0.18
Exercised	-	-
Granted - September 8, 2022	350,000	0.14
Total options	16,200,000	0.16
Vested options	15,045,000	0.15

The following provides a summary of the stock option plan as at 31 December 2022

Range of exercise price (USD)	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price (USD)*	*Number exercisable*
0.04 - 0.37	16,200,000	6.10	0.16	15,045,000

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

Range of exercise price (USD)	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price (USD)*	*Number exercisable*
0.05 - 0.38	15,850,000	7.00	0.18	11,552,500

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 on 8 September 2022, 29 October 2021 and 30 August 2021:

	8 Sep 2022	**29 Oct 2021**	**30 Aug 2021**
Risk-free interest rate (%)	1.48	1.48	0.83
Expected life (years)	2.5	5	5
Expected volatility (%)	103%	103	104
Dividends (%)	Nil	Nil	Nil
Forfeiture rate (%)	5%	5	5
Weighted average fair value at issuance (USD)	0.10	0.28	0.27

(ii) Restricted Share Units (restated)

At 31 December 2022 the Company had 4,000,000 Restricted Share Units outstanding. The Restricted Share Units vest over a period of ten years. The Company has recognised a share-based payment charge of $155,195 (31 December 2021 (restated): $27,260) during the year.

(c) Broker warrants

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

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*
0.32	385,098	0.61	0.32

At 31 December 2022 there were no outstanding broker warrants.

(d) Reserves

Share capital - ordinary shares are classified as equity; incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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.

14. 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) amortised costs. Each category has a defined basis of measurement. If a category is measured at fair value, any changes in fair value is recognised 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.

The financial assets and liabilities that are measured and recognised in the consolidated statements of financial position at fair value on a recurring basis were categorised into the fair-value hierarchy levels as follows:

	Level 1	**Level 2**	**Level 3**
Equity option*	-	-	8,723
Derivative liability (convertible note) (Note 12)	-	-	129,650
Balance 31 December 2022	-	-	138,373

* The option to acquire shares in the associate is measured at level 3. The fair value of this financial instrument was determined using the Black Scholes model. The key input to this model is the volatility rate of 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 $6,045 and a 10% decrease would result in a charge to the income statement of $4,420.

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

	31 December 2022	**31 December 2021**
Cash:		
Canadian Dollar	465	87,763
United States Dollar	937	82,950
Pound Sterling	391,040	4,229,086
Euro	96,989	16,914
Malawian Kwacha	3,966	23,972
Australian Dollar	306	6,165
	493,703	4,446,850

A 5% reduction in the value of the CAD, Euro, GBP, MWK and AUD in comparison to the USD would cause a change in net loss of approximately $24,638 (31 December 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.

The Company's principal financial liability is the debt component of the convertible loan note with CoTec. The interest rate exposure on the debt component is limited as the interest rate is limited given the coupon rate linked to the convertible loan is fixed at 5%.

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.

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

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	773,245	773,245	-
Due to related parties	186,426	186,426	-

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

Financial instruments by category

Financial Assets	**Fair value through profit or loss**		**Amortised cost**	
	31 December 2022	**31 December 2021**	**31 December 2022**	**31 December 2021**
Cash	-	-	493,703	4,446,850
Receivables	-	-	28,804	1,962
Total financial assets	**-**	**-**	**522,507**	**4,448,812**
Financial liabilities				
Trade and other payables	-	-	959,671	1,258,572
Loans and borrowings	-	-	1,603,696	-
Derivatives	129,650	-	-	-
Total financial liabilities	**129,650**	-	**2,563,367**	**1,258,572**

15. COMMITMENTS

The Company was first granted the Phalombe Licence for the Songwe property on 21 January 2010. The licence was issued by the Government of Malawi on an initial three-year basis. The licence was subsequently renewed every two years and was renewed for a third time on 21 January 2019. The future spending commitments for the exploration rights with the Government of Malawi were 150,000,000 Kwacha ($160,591) over two years, which have been met. On 1 June 2021 the Phalombe Licence was transferred into 11 retention licences covering a total of 250 sq km. Each retention licence is for a five-year period from 1 June 2021.

On 10 September 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in the Thambani area, Mwanza District, Malawi. The licence was issued by the Government of Malawi on an initial three-year basis and was subsequently renewed from 10 September 2015 for additional two-year periods. The Company has subsequently been granted four retention licences for a period of five years from 9 November 2021.

On 10 November 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in the Chimimbe Hill area, Mchinji District, Malawi. The licence was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The commitment for exploration expenses with the Government of Malawi under the licence is 25,000,000 Kwacha ($26,765) over three years which had been met. The licence is currently in the process of being renewed and is in good standing.

On 13 May 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in Mchinji District, Malawi. The licence was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The licence is in good standing and has been renewed for a further two years from 13 May 2022.

The Company continues to meet the terms and conditions of its exploration licences and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programmes.

16. TAXES

The differences between the tax provisions calculated using the statutory rates and the reported tax provision are as follows:

	For the year ended 31 December 2022	For the year ended 31 December 2021 (restated)
Losses before taxes	(5,985,963)	(9,326,988)
Statutory tax rate	27%	27%
Expected tax recovery	(1,616,210)	(2,518,287)
Increase (decrease) in taxes:		
Non-deductible expense - share-based payments	260,279	267,587
Tax rate differential between Canada and foreign jurisdictions (30% in Malawi, 0% in BVI, 19% in UK and Poland)	862,948	1,849,639
Change in deferred tax assets not recognised	492,983	401,061
Tax expense (recovery)	-	-

No deferred tax assets have been recognised in respect of the following deductible temporary differences as it is not probable that future taxable profit will allow the deferred tax asset to be recovered.

	For the year ended 31 December 2022	For the year ended 31 December 2021
Exploration and evaluation costs	8,134,134	8,058,428
Loss carry forwards - Canada	6,545,616	4,671,326
Loss carry forwards - UK	793,825	71,108
Loss carry forwards - Poland	204,821	54,790
Loss carry forwards - Malawi	4,863,914	4,381,533
	20,542,310	17,237,185

The tax value of the losses is as follows:

	For the year ended 31 December 2022	For the year ended 31 December 2021
Evaluation and exploration costs	2,440,240	2,417,528
Loss carry forwards - Canada	1,767,316	1,261,258
Loss carry forwards - UK	198,456	13,511
Loss carry forwards - Poland	38,916	10,410
Loss carry forwards - Malawi	1,459,174	1,314,460
	5,904,103	5,017,167

As at 31 December 2022, the Company had $6,545,616 (2021 –$4,671,326) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount ($)
2028	61,727
2029	25,643
2030	47,064
2031	177,840
2032	341,526
2033	464,875
2034	536,977
2035	504,724
2036	474,517
2037	478,017
2038	638,095
2039	121,597
2040	162,828
2041	635,896
2042	1,874,290
	6,545,616

As at 31 December 2022, the Company had unutilised exploration and evaluation costs of $8,134,134 (2021 – $8,058,428) to claim against future taxable income in Canada. These capital losses do not expire.

As at 31 December 2022, the Company had $4,863,914 (2021 – $4,381,533), $204,821 (2021 - $54,790) and $793,825 (2021 - $71,108) in non-capital losses available to claim against future taxable income in Malawi, Poland and UK respectively. These non-capital losses do not expire.

The deductible temporary differences attributable to subsidiaries in the BVI have not been disclosed as those subsidiaries are not subject to income tax in the BVI.

17. LOSS PER SHARE

The calculation of basic earnings per share at 31 December 2022 was based on the loss attributable to ordinary shareholders of $5,985,963 (31 December 2021 (restated): loss $6,401,477) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2022 of 215,088,397 (31 December 2021: 153,119,372) calculated as follows:

	31 December 2022	31 December 2021 (restated)
Loss attributable to the ordinary shareholders (USD)	(5,985,963)	(6,401,477)
Number of ordinary shares outstanding at beginning of year	214,581,548	133,000,721
Effect of shares issued during the period	506,849	20,118,651
Weighted average number of ordinary shares outstanding	215,088,397	153,119,372
Loss per share (USD)	(0.028)	(0.042)

18. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of $(1,166,116) as at 31 December 2022 (31 December 2021: $4,004,595).

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 optimises 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 has no externally imposed capital requirements.

19. SUBSEQUENT EVENTS

a) CoTec investment into Mkango Resources Limited

On 3 February 2023, CoTec invested a further £452,500 ($545,263), taking its total investment into Mkango to £2,000,000 ($2,410,000) by way of a convertible loan, bearing 5% interest, compounded annually. The convertible loan is secured over the shares held by Mkango in Maginito and the terms supersede all previous convertible notes issued by Mkango to CoTec. The convertible loan is convertible (both principal and interest) by CoTec at any time prior to the maturity date of the convertible loan, which is 60 days following the earliest of:

(i) two years following the date of the convertible loan;

(ii) the execution of definitive documentation providing for the financing of the development of the Songwe Hill Rare Earths Project in Malawi;

(iii) the sale of all or any material portion of the Songwe Hill Rare Earths Project;

(iv) the execution of any agreement with a party pursuant to which such party is entitled to acquire greater than 50% of the Songwe Hill Rare Earths Project; or

(v) the date on which any party acquires greater than 50% of the shares of Mkango. The principal amount of £2,000,000 ($2,410,000) may be converted at 27p per Mkango share with interest to be converted at the higher of 27p per Mkango Share and the price of the Mkango Shares at the time of conversion. The conversion price is subject to customary anti-dilution adjustments.

b) Equity Fundraising

On 13 February 2023, Mkango raised gross proceeds of £3.5 million (approximately $4.2 million) via a placing and subscription totalling 28,000,000 placing shares at a price of 12.5p per share. The net proceeds were £3.3 million (approximately $4 million). The Company intends to use the net proceeds of the placing to provide matched funding to unlock grants for HyProMag GmbH, which will enable progression to first production in Germany in 2024. Furthermore, the placing will cover costs associated with finalising the Mining Development Agreement and Mining Licence for the Songwe Hill Rare Earths Project in Malawi, and cover working capital requirements.

c) CoTec investment into Maginito

On 16 March 2023, CoTec subscribed for shares in Maginito, equivalent to a post-issuance 10% equity stake, for an investment of £1.5 million ($1.8 million).