Consolidated Financial Statements of

MKANGO RESOURCES LTD.

For the years ended December 31, 2015 and 2014

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

As at	Notes	December 31, 2015	December 31, 2014
ASSETS			
Current			
Cash and cash equivalents		$208,161	$161,009
Accounts receivable		2,760	7,386
Prepaid expenses		5,023	13,477
Total currents assets		215,944	181,872
Property and equipment	5	36,991	3,806
Total assets		252,935	185,678
LIABILITIES			
Current			
Accounts payable and accrued liabilities		76,182	81,153
Due to related party	6	298,865	174,334
Total current liabilities		375,047	255,487
Long term			
Warrants - derivative financial instruments	7(b)	609,700	1,614,013
Total liabilities		984,747	1,869,500
EQUITY (DEFICIENCY)			
Share capital	7(a)	7,399,685	7,173,622
Contributed surplus		2,739,847	2,555,367
Accumulated other comprehensive income		65,029	53,856
Deficit		(10,936,373)	(11,466,667)
Total deficit		(731,812)	(1,683,822)
Total liabilities and deficit		$252,935	$185,678
Going concern	2		
Commitments	10		

Approved on behalf of the Board:

(signed) "*William Dawes*"

William Dawes, CEO and Director

(signed) "*David Berg*"

David Berg, Director

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD.
Consolidated Statements of Comprehensive Income (Loss)
Reported in US dollars

		December 31,	
For the year ended:	Notes	2015	2014
Expenses			
General and administrative		$660,594	$1,200,290
Mineral exploration expenditures		133,949	954,520
Depreciation	5	5,306	1,245
Share-based payments	7(c)	108,442	369,827
		908,291	2,525,882
Other items			
Interest income		(8)	(346)
Unrealized gain on revaluation of warrants	7(b)	(1,290,900)	(238,827)
Loss on sale of asset		951	-
Foreign exchange (gain) loss		(148,628)	26,385
Net income (loss)		$530,294	$(2,313,094)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net income (loss):			
Exchange difference on translating foreign operations		11,173	53,856
Total comprehensive income (loss)		$541,467	$(2,259,238)
Net income (loss) per share - basic and diluted		$0.01	$(0.03)
Weighted average shares outstanding basic and diluted		89,787,915	67,950,428

Refer to accompanying notes to the consolidated financial statements.

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

For the year ended:	Notes	December 31, 2015	2014
Cash flow used by operating activities			
Net income (loss) for the period		$530,294	$(2,313,094)
Items not affecting cash:			
Share-based payments	7(c)	108,442	369,827
Unrealized gain on revaluation of warrants	7(b)	(1,290,900)	(238,827)
Loss on disposal of asset		951	-
Depreciation	5	5,306	1,245
Unrealized foreign exchange gain	5	(197,208)	-
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		13,080	40,854
Accounts payable, accrued liabilities and due to related party		119,560	63,835
Cash flow used by operating activities		(710,475)	(2,076,160)
Cash flow provided by financing activities			
Issue of share capital, net of issue costs	7(a)	785,896	1,806,075
Cash flow provided by financing activities		785,896	1,806,075
Cash flow used by investing activities			
Purchase of assets	5	(42,124)	-
Proceeds on sale of assets	5	2,682	-
Cash flow used by investing activities		(39,442)	-
Effect of exchange rate changes on cash		11,173	(6,284)
Change in cash and cash equivalents		47,152	(276,369)
Cash and cash equivalents at the beginning of the year		161,009	437,378
Cash and cash equivalents at the end of the year		$208,161	$161,009

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD.
Consolidated Statements of Changes in Equity (Deficit)
Reported in US dollars

	Share capital (Note 7)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at December 31, 2013	$7,370,698	$2,080,195	$ -	$(9,153,573)	$297,320
Common shares issued	2,046,281	-	-	-	2,046,281
Common shares issued - agent fee	2,184	-	-	-	2,184
Share issue costs	(329,620)	87,230	-	-	(242,390)
Warrant valuation	(1,915,921)	-	-	-	(1,915,921)
Expired warrants	-	18,115	-	-	18,115
Share based payments	-	369,827	-	-	369,827
Total comprehensive loss	-	-	53,856	(2,313,094)	(2,259,238)
Balance at December 31, 2014	$7,173,622	$2,555,367	$53,856	$(11,466,667)	$(1,683,822)
Common shares issued	863,824	-	-	-	863,824
Common shares issued - agent fee	56,899	-	-	-	56,899
Share issue costs	(134,827)	-	-	-	(134,827)
Warrants issued - agent fee	(76,038)	76,038	-	-	-
Warrant valuation	(483,795)	-	-	-	(483,795)
Share based payments	-	108,442	-	-	108,442
Total comprehensive income	-	-	11,173	530,294	541,467
Balance at December 31, 2015	$7,399,685	$2,739,847	$65,029	$(10,936,373)	$(731,812)

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

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

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. Mkango's head office is located at 259 Windermere Road SW, Calgary, Alberta Canada, T3C 3L2.

Lancaster BVI was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. Lancaster BVI's registered office is located at 56 Administration Drive, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Lancaster is a wholly owned subsidiary of Mkango.

On May 19, 2011, a third entity, Lancaster Exploration Limited ("Lancaster Malawi"), was incorporated under the laws of Blantyre, Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI.

Mkango and its wholly owned 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 April 21, 2016.

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 has a working capital deficiency of $159,103 (2014 - $73,615), negative cash flows from operating activities and has a deficit of $10,936,373 (December 31, 2014 - $11,466,667). In addition, the Company has future spending commitments with the Government of Malawi to keep its exploration licences in good standing. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi (Note 10). These factors indicate material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern. The Company is in the process of acquiring, exploring and developing its mineral interests.

The operations of the Company for the next 12 months will be partially funded by cash remaining from a non-brokered private placement, which closed in two tranches on July 31, 2015 and October 20, 2015 (Note 7) and by future equity placements.

Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated 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, 2015.

(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.

3. BASIS OF PRESENTATION (continued)

(c) Functional and presentation currency

The consolidated financial statements are presented in US dollars, which is the functional currency of Mkango and its Lancaster BVI subsidiary. Effective January 1, 2014, the functional currency of Lancaster Malawi changed from the US dollar to the local currency, the Kwacha, based upon changes in economic facts and circumstances.

(d) Principles of consolidation

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

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Key areas of judgement made in applying the Company's accounting policies are as follows:

(i) Exploration and evaluation expenditures

Costs incurred in respect of properties that have been determined to have proved reserves and for which an environmental impact study has been completed, are classified as development and production assets. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation expenses and are recognized in the statement of comprehensive income (loss). The decision to transfer assets from exploration and evaluation to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As at December 31, 2015, management has determined that the Company has not yet reached the development and production stage.

(ii) Functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of each entity if there is a change in events and conditions, which determine the primary economic environment.

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

(i) Measurement of share-based payments and warrant valuation (Note 7(b))

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

(ii) Determination of fair values (Note 9)

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

3. BASIS OF PRESENTATION (continued)

(iii) Taxes (Note 8)

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

(f) New IFRS pronouncements not yet implemented

The following IFRS pronouncements have been issued by the IASB as at December 31, 2015 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations and is currently assessing the impact of these new or amended standards and interpretations. Certain other new standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company's consolidated financial statements.

(i) IFRS 9 financial instruments (New and Amendment)

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

(ii) IFRS 15 revenue from contracts with customers (New)

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

(iii) IFRS 16 leases (New)

IFRS 16 was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the year beginning January 1, 2019 and has not yet considered the potential impact of the adoption of IFRS 16.

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 recognized in the statement of comprehensive income (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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment ("P&E") expenditures

Items of property and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU") for impairment testing and categorized within property and equipment as mineral interests. Property and equipment is comprised of drilling and mining servicing assets, office equipment and other corporate assets. When significant parts of an item of property and equipment, including mineral interests, have different useful lives, they are accounted for as separate items (major components).

Property and equipment assets, categorized as mineral interests, are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Gains and losses on disposal of an item of property and equipment, including mineral interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the consolidated statement of comprehensive income (loss).

(ii) Subsequent costs

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

(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 including vehicles are recorded at cost and are depreciated over the estimated useful life of the asset using the declining balance based on a 20% rate. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(b) 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 grant proceeds received net of mineral exploration expenditures.

(c) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of comprehensive income (loss).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of comprehensive income (loss).

(ii) Non-financial assets

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

For the purpose of impairment testing, assets are grouped together into 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 to sell.

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

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

(d) Impairment losses

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

(e) Decommissioning obligation

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation 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 recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at December 31, 2015, 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 for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. 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 the consolidated statement of comprehensive income (loss).

Foreign currency translation adjustments are required each reporting period for Lancaster Malawi, a subsidiary of the Company having a functional currency, which differs from the parent. 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. Gains or losses are recognized in other comprehensive income (loss).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Taxation

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

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

Deferred tax is recognized 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 recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the 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 realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at 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 realized.

(h) Per share amounts

Basic per share amounts are calculated by dividing the net profit 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 ordinary during the period 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 and consultants to purchase common shares. The fair value of options determined using the Black-Scholes option pricing model on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. Options to non-employees are measured at the fair value of the goods or services received, unless the fair value of the options are more reliably determinable, and are recognized each reporting date as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the estimated number of options that vest.

(j) Cash and cash equivalents

Cash comprises of cash on hand and term deposits held with banks, maturing in 3 months or less.

(k) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related parties. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss ("FVTPL")

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has classified cash and cash equivalents as fair value through profit or loss.

Loans and receivables

Other non-derivative financial assets classified as loans and receivables include accounts receivable, which are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities

Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities and are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

Warrants denominated in a currency other than the Company's functional currency are derivative financial instruments designated as FVTPL and are measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive income (loss).

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(k) Provisions

The Company makes a distinction between:

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

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

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2013	$ 10,020	$ (4,969)	$ 5,051
Depreciation	-	(1,245)	(1,245)
Balance at December 31, 2014	10,020	(6,214)	3,806
Disposal of asset	(9,732)	6,099	(3,633)
Additions	42,124	-	42,124
Depreciation	-	(5,306)	(5,306)
Balance at December 31, 2015	$ 42,412	$ (5,421)	$ 36,991

6. RELATED PARTY TRANSACTIONS

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. Generally the Company repays the disbursements made by Leo Mining on its behalf. During the year ended December 31, 2015, the Company had incurred costs of $53,869 (2014 - $27,437) for administrative services. As of December 31, 2015 the Company has an outstanding payable to Leo Mining in the amount of $29,974 (2014 – $7,272). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however this has been waived since 2013.

b) Digby Wells Environmental (“Digby”), by virtue of a common director, is considered a related party. During the year ended December 31, 2015, the Company has incurred costs of $8,402 (2014 – $244,246) for environmental services. As of December 31, 2015, there was an outstanding payable to Digby for $6,587 (2014 – $2,306).

c) A partner of Stikeman Elliott (London) LLP (“Stikeman”) became a director of the Company in 2014. The director ceased to be a partner at Stikeman in July 2015. Therefore, Stikeman is only considered a related party up to July 2015. During the period ended July 31, 2015, the Company incurred $18,295 (2014 – $132,597) for legal services. As of December 31, 2015, there was an outstanding payable to Stikeman for $86,985 (2014 – $108,531).

d) The Company incurred costs of $394,981 (2014 - $526,243) for key management and director fees and related costs for the year ended December 31, 2015. Included in due to related parties at December 31, 2015, was $175,319 (2014 - $56,225) due to a related parties and officers of the Company. The amounts owed are unsecured, due on demand and non-interest bearing.

	2015	2014
Salary	$ 302,149	$ 385,235
Share-based awards	92,832	141,008
Total key management compensation	$ 394,981	$ 526,243

7. SHARE CAPITAL

a) Common Shares

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

	Ref	Number	Amount
Closing balance December 31, 2013		50,564,603	$7,370,698
Brokered offering - March 24, 2014	(i)	16,262,603	1,462,748
Warrants valuation		-	(1,365,728)
Agent warrants		-	(59,363)
Agent shares		24,500	2,184
Brokered offering - April 3, 2014	(ii)	6,445,250	583,533
Warrants valuation		-	(550,193)
Agent warrants		-	(27,867)
Share issue costs	(iii)	-	(242,390)
Closing balance December 31, 2014		73,296,956	$7,173,622
Brokered offering - July 31, 2015	(iv)	30,000,000	578,516
Warrants valuation		-	(318,464)
Agent warrants		-	(52,708)
Agent shares		1,680,000	32,372
Brokered offering - October 20, 2015	(v)	15,000,000	285,308
Warrants valuation		-	(165,331)
Agent warrants		-	(23,330)
Agent shares		1,280,000	24,527
Share issue costs	(vi)	-	(134,827)
Closing balance December 31, 2015		121,256,956	$7,399,685

(i) On March 24, 2014, the Company issued 16,262,603 units at C$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C$1,626,260 (US $1,462,748) gross proceeds of the non-brokered offering were allocated between common shares C$94,323 (US$97,020) and warrants C$1,531,937 (US $1,365,728) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C$0.20 until March 24, 2019. The Corporation issued to the Agent 24,500 Units valued at US $2,184 and 880,782 warrants valued at US $59,363. Each whole warrant entitles the holder to acquire one common share for C$0.10 until March 24, 2016.

(ii) On April 3, 2014, the Company issued 6,445,250 units at C$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C$644,525 (US$583,533) gross proceeds of the non-brokered offering were allocated between common shares C$36,791 (US$33,340) and warrants C$607,734 (US$550,193) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C$0.20 until April 3, 2019. The Corporation issued 406,770 agents warrants valued at US$27,867. Each whole warrant entitles the agent to acquire one common share for C$0.10 until April 3, 2016.

(iii) Share issue costs of US $242,390 were paid for agent and legal services and regulatory exchange filing fees.

7. SHARE CAPITAL (continued)

(iv) On July 31, 2015, the Company issued 30,000,000 units at C$0.025 per unit pursuant to the non-brokered offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C$750,000 (US $578,516) gross proceeds of the non-brokered offering were allocated between common shares C$334,500 (US$260,052) and warrants C$415,500 (US $318,464) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C$0.05 until July 31, 2018. The Corporation issued to the Agents 1,680,000 Units, consisting of 1 common share and one-half common share purchase warrant of Mkango, valued at US $32,372 and 1,820,000 warrants valued at US $52,708. Each whole warrant entitles the holder to acquire one common share for C$0.05 until July 31, 2016.

(v) On October 20, 2015, the Company issued 15,000,000 units at C$0.025 per unit pursuant to the non-brokered offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C$375,000 (US $285,308) gross proceeds of the non-brokered offering were allocated between common shares C$160,500 (US$119,977) and warrants C$214,500 (US $165,331) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C$0.05 until October 19, 2018. The Corporation issued to the Agents 280,000 Units, consisting of one common share and one-half common share purchase warrant of Mkango, and 1,000,000 common shares valued at US $24,527 and 980,000 warrants valued at US $23,330. Each whole warrant entitles the holder to acquire one common share for C$0.05 until October 19, 2016.

(vi) Share issue costs of US $134,827 were paid for agent and legal services and regulatory exchange filing fees.

b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar. Warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. Warrants issued do not include warrants issued to brokers and agents since they fall under the scope of IFRS 2, "share-based payments".

	Weighted Average Exercise Price (CDN$)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2013	$ -	-	6,560,874	$ 18,115
Warrants expired – March 1, 2014	0.35	-	(2,142,858)	(4,860)
Warrants expired – April 11, 2014	0.35	-	(4,418,016)	(13,255)
Warrants issued – March 24, 2014	0.20	4.25	16,262,603	1,365,728
Warrants issued – April 3, 2014	0.20	4.25	6,445,250	550,193
Foreign exchange effect	-	-	-	(63,081)
Fair value change at December 31, 2014	-	-	-	(238,827)
Balance at December 31, 2014	$ 0.20	4.25	22,707,853	$ 1,614,013
Warrants issued – July 31, 2015	0.05	2.58	15,000,000	318,464
Warrants issued – October 20, 2015	0.05	2.80	7,500,000	165,331
Foreign exchange effect	-	-	-	(197,208)
Fair value change at December 31, 2015	-	-	-	(1,290,900)
Balance at December 31, 2015	$ 0.13	2.95	45,207,853	$ 609,700

7. SHARE CAPITAL (continued)

The fair value of each warrant issued is determined at each reporting period using the Black-Scholes pricing model. The following assumptions were used in arriving at the fair value estimate for the warrants:

	July 31, 2015	December 31, 2015 *Revaluation*	October 20, 2015	December 31, 2015 *Revaluation*
Risk free interest rate	0.50%	0.50 %	0.50%	0.50 %
Expected volatility	217%	261%	241%	254%
Share price	$0.02	$0.02	$0.02	$0.02
Foreign exchange rate	1.3047	1.3840	1.2974	1.3840
Remaining life	3.23	2.58	3.25	2.80

	March 24, 2014	April 3, 2014	December 31, 2014 *Revaluation*	December 31, 2015 *Revaluation*
Risk free interest rate	1.69%	1.67%	1.34%	0.50%
Expected volatility	144%	143%	147%	243%
Share price	$0.11	$0.11	$0.10	$0.02
Foreign exchange rate	1.1217	1.1035	1.1601	1.3840
Remaining life	5.00	5.00	4.25	3.25

c) Share-based payments

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

The share-based payments expense that has been recognized in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2015 was $108,442 (2014 - $369,827). The corresponding amount has been recognized in contributed surplus. The options vest over a term of 24 months.

The following tables provide a summary of the status of the Company’s stock option plan:

Year ended December 31	2015		2014	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	6,910,000	$ 0.26	4,972,500	$ 0.39
Granted	-	-	3,000,000	0.13
Cancelled	(412,500)	(0.18)	(887,500)	(0.49)
Forfeited	(187,500)	(0.16)	(112,500)	(0.20)
Expired	-	-	(62,500)	(0.50)
Outstanding, end of year	6,310,000	$0.27	6,910,000	$ 0.26

7. SHARE CAPITAL (continued)

Grant date	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)
Granted - January 17, 2011	January 16, 2021	1,700,000	1,700,000	$0.50	5.0
Granted - June 29, 2011	June 28, 2021	330,000	330,000	$0.55	5.5
Granted - September 25, 2013	September 24, 2023	1,480,000	1,480,000	$0.20	7.7
Granted - May 30, 2014	May 29, 2024	2,800,000	2,100,000	$0.13	8.4
Balance at December 31, 2015		6,310,000	5,610,000	$0.27	7.2

Grant date	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)
Granted - January 17, 2011	January 16, 2021	1,700,000	1,700,000	$0.50	6.0
Granted - June 29, 2011	June 28, 2021	330,000	330,000	$0.55	6.5
Granted - September 25, 2013	September 24, 2023	1,880,000	940,000	$0.20	8.7
Granted - May 30, 2014	May 29, 2024	3,000,000	750,000	$0.13	9.4
Balance at December 31,2014		6,910,000	3,720,000	$0.26	8.3

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used in arriving at the fair value for the options that were issued during the year ended December 31, 2014. No options were issued during the year ended December 31, 2015.

	May 30, 2014
Risk free interest rate	2.24%
Expected life	10 years
Expected volatility	142%
Dividends	Nil
Forfeiture rate	5%
Fair value at issuance	$0.12

8. TAXES

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

For the year ended December 31,		2015		2014
Net loss before taxes	$	530,294	$	(2,313,094)
Statutory tax rate		26%		25%
Expected tax expense (recovery)		137,877		(578,274)
Increase (decrease) in taxes:				
Revaluation of warrants		(335,631)		(59,707)
Share-based payments		28,195		92,457
Foreign exchange on revaluation of warrants		(51,274)		64,496
Tax rate differential between Canada and foreign jurisdictions		123,246		(97,571)
Change in deferred tax assets not recognized		97,587		578,599
Tax expense	$	-	$	-

The statutory rate increased from 25% to 26% due to the increase in the Alberta provincial tax rate on July 1, 2015.

No deferred tax assets have been recognized 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.

As at December 31,		2015		2014
Property and equipment	$	12,472	$	6,215
Evaluation and exploration costs		5,641,831		5,507,882
Loss carry forwards		6,892,136		6,173,422
Share issue costs		374,186		357,846
	$	12,920,625	$	12,045,365

As at December 31, 2015, the Company had $3,693,928 (2014 - $3,652,933) in non-capital losses available to claim against future taxable income in Malawi. These non-capital losses do not expire.

As at December 31, 2015, the Company had CDN $2,564,587 (2014 – CDN $2,075,360) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount CDN$
2027	$ 77,375
2028	32,143
2029	30,527
2030	28,468
2031	222,922
2032	428,103
2033	582,721
2034	673,101
2035	489,227
	$ 2,564,587

9. FINANCIAL INSTRUMENTS

Determination of fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the statement of comprehensive income (loss). Those categories are fair value through profit or loss; loans and receivables; and, for most liabilities, other financial liabilities.

In establishing fair value, the Company used 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.

Cash and cash equivalents are measured at level 1; warrant derivative financial instruments are measured at level 2.

The carrying value of accounts receivable, accounts payable and accrued liabilities and due to related parties approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value, see Note 7(b).

Financial risk management

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

Foreign currency risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in the Canadian Dollar, the United States dollar, and the local currency in Malawi (Kwacha). The Company raises its equity in the Canadian dollar and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. The Company's exposure to foreign currency risk as at December 31, 2015 and 2014 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	As at December 31,	
	2015	2014
Cash and cash equivalents:		
Canadian dollars	$ 205,749	$ 156,598
Malawi Kwacha	553	3,421
Warrants – derivative financial instruments	(609,700)	(1,614,013)
	$ (403,398)	$ (1,453,994)

A 5% reduction in the value of the Canadian dollar in comparison to the United States dollar would cause a change in income (loss) of approximately $20,100. A 5% change in the value of the Malawi Kwacha in relationship to the United States dollar would not cause a material change in net income (loss).

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its cash and cash equivalents at banks. However, the interest rate risk is expected to be minimal. The Company does not presently hedge against interest rate movements.

Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

a) The Company will not have sufficient funds to settle a transaction on the due date;

b) The Company will be forced to sell financial assets at a value which is less than the fair value; or

c) The Company may be unable to settle or recover a financial asset at all.

9. FINANCIAL INSTRUMENTS (continued)

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issuances or obtain project debt financing

The Company manages its liquidity risk by maintaining adequate cash and cash equivalents. The Company is actively seeking additional funding to improve its exposure to liquidity risk. The Company continually monitors its actual and forecast cash flows to ensure that there are adequate reserves to meet the maturing profiles of its financial liabilities.

The following table outlines the maturities of the Company's liabilities as at December 31, 2015:

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	$ 76,182	$ 76,182
Due to related parties	$ 298,865	$ 298,865

Credit risk

The Company's principal financial assets are cash and cash equivalents. The credit risk on cash and cash equivalents is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies. Accounts receivable consists of GST and interest on investments with a credible financial institution.

10. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Malawi Government on a three-year basis, originally, and on January 20, 2015 was renewed for an additional two years. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate MWK651):

Exploration commitments, 2 years	$ 230,415
Ground rent, 2 years	26,086
Total commitment, 2 years	$ 256,501

On September 10, 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 468 km2 in Thambani, Mwanza District, Malawi. The license was issued by the Malawi Government on a three-year basis, originally, and was 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 sq km. The future spending commitments for exploration expenses with the Government of Malawi was renegotiated from 250,000,000 to 25,000,000 Kwacha over two years (foreign exchange rate MWK651):

Exploration commitments, 2 years	$ 38,402
Ground rent, 2 years	4,206
Total commitment, 2 years	$ 42,608

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

11. CAPITAL MANAGEMENT

The Company's total capital consists of shareholders' equity (deficiency) and amounts to ($731,812) as at December 31, 2015. The operations of the Company for the next 12 months will be partially funded by cash remaining from a non-brokered private placement, which closed in two tranches on July 31, 2015 and October 20, 2015 (Note 7) and by future equity placements.

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.