



MKANGO RESOURCES LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2014 and 2013

The following Management’s Discussion and Analysis (“MD&A”) of Mkango Resources Ltd. (“Mkango” or the “Company”) was prepared in accordance with the requirements of National Instrument 51-102, Continuous Disclosure Obligations, and it should be read in conjunction with the consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2014 (the “Financial Statements”). The results reported herein have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are prepared in United States dollars unless otherwise stated. This document is dated August 21, 2014.

The Board of Directors of the Company have reviewed and approved the information contained in this MD&A and the Financial Statements.

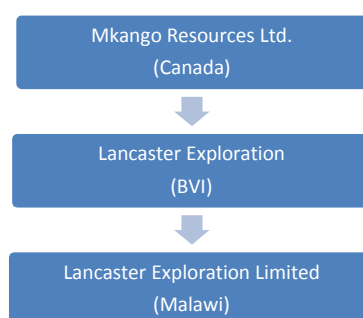
Readers are cautioned that this MD&A contains certain forward-looking statements. Please see the section concerning “Forward Looking Statements” below.

Additional information relating to the Company, including the Company’s Filing Statement, can be found on the Canadian System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com. The Company is listed on the TSX Venture Exchange under the symbol MKA.

FORWARD LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “believes”, “budget”, “continue”, “could”, “estimate”, “forecast”, “intends”, “may”, “plan”, “predicts”, “projects”, “should”, “will” and other similar expressions. All estimates and statements that describe the Company’s future, goals, or objectives, including management’s assessment of future plans and operations, may constitute forward-looking information under securities laws. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Mkango’s control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, accuracy of current drill and other exploration results, environmental risks, changes in environmental, tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Mkango’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Mkango will derive there from. Mkango disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

COMPANY OVERVIEW



Mkango is a rare earth and associated minerals exploration and development company with properties in the Republic of Malawi, Africa, specifically, the Phalombe exploration license (“Phalombe License”) and the Thambani exploration license (“Thambani License”). The Company’s headquarters are in Calgary, Alberta, Canada.

Mkango was originally incorporated under the name Alloy Capital Corp. under the laws of the Province of Alberta, Canada. Mkango completed its initial public offering on August 27, 2008 as a Capital Pool Corporation as defined

by Policy 2.4 of the TSX Venture Exchange (“Policy 2.4”). On December 20, 2010 Mkango completed its Qualifying Transaction, as defined in Policy 2.4, by acquiring all of the issued and outstanding shares of Lancaster Exploration (“Lancaster”) through a reverse-takeover, which closed on December 20, 2010.

Lancaster was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the BVI Companies Act. Lancaster'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.

Lancaster Exploration Limited, a wholly owned subsidiary of Lancaster, was incorporated under the laws of Blantyre, Malawi on May 19, 2011.

GOING CONCERN

These consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of \$1,590,585 for the six months ended June 30, 2014 (2013 - \$1,234,526) and has a deficit of \$10,744,158 (December 31, 2013 - \$9,153,573). 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 funded by a non-brokered private placement (“Financing”), which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 7).

In addition to the equity financing, the Company was approved to receive the South African Department of Trade and Industry (“DTI”) grant on May 26, 2014 for an amount of Rand 7,967,804 (USD\$750,264) under the Capital Projects Feasibility Program. The grant will be dispersed to the Company between June 2014 and March 2015 as the Company meets certain milestones in relation to a number of activities including environmental and social impact studies, mine planning, design of the processing plant and tailings storage facility, flotation and hydrometallurgical optimization and marketing studies.

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.

HIGHLIGHTS

As of June 30,	2014	2013
Cash used by operations	\$ (1,007,891)	\$ (970,387)
Cash from financing activities	1,804,877	2,116,463
Net loss and comprehensive loss	(1,590,585)	(1,234,526)
Loss per share - basic and diluted	\$ (0.03)	\$ (0.03)
Weighted average common shares outstanding	62,515,283	44,142,286
<i>Evaluation and exploration spending:</i>		
Malawi – Mineral exploration expenditures	584,583	305,375
Current assets	1,305,209	502,036
Current liabilities, excluding revaluation of warrants	362,727	191,652
Working capital	\$ 942,482	\$ 310,384

SUMMARY OF QUARTERLY RESULTS

Total Operations	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$ 332	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ (13)	\$ (500)
Expenses	882,203	435,418	765,081	368,331	657,872	424,494	524,263	465,617
Warrant fair value loss (gain)	274,101	(805)	(563,069)	93,039	158,078	(5,918)	180	(147,313)
Gain on loan forgiven	-	-	-	-	-	-	15,343	-
Net revenue (loss) for period	(1,155,972)	(434,613)	(202,012)	(461,370)	(815,950)	(418,576)	(509,113)	(318,804)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Total assets	1,309,637	1,452,295	507,087	1,133,729	1,516,545	1,070,915	447,527	720,299
<i>Cash and restricted cash</i>	<i>1,272,960</i>	<i>1,436,668</i>	<i>440,319</i>	<i>1,068,939</i>	<i>1,427,839</i>	<i>937,228</i>	<i>324,784</i>	<i>650,139</i>

The financial data for the periods reported 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 June 30, 2014. The financial data is presented in US dollars, which is the functional currency of the Company and its subsidiaries.

The Company’s principle activities require expenditures which include both exploration and general and administrative expenses.

The Company incurred a net loss of \$1,155,972 and \$815,950 for the three months ended June 30, 2014 and June 30, 2013, respectively. Total expenses for the three months ended June 30, 2014 were \$870,003, which was a \$254,491 increase over the \$615,512 expenses incurred for the three months ended June 30, 2013. During the three months ended June 30, 2014, mineral exploration costs were \$212,464 higher than the comparative period in 2013, as a result of the following activities on the Songwe Hill project: Continuing to progress the environmental and social impact studies, optimization of the mineral processing studies and metallurgical test work, process plant engineering design work and other costs related to the pre-feasibility study. The Company also continues to progress the geological exploration studies on the Thambani project. Stock based compensation expense was \$56,506 higher for the three months ended June 30, 2014 as compared to the same period in 2013 as a result of issuing options on September 25, 2013 and May 30, 2014, whereby each issuance vests over a 24 month period. These increases to expenses were off set by a reduction in general overhead costs (\$14,175) and depreciation (305).

The Company incurred a net loss of \$434,613 and \$418,576 for the three months ended March 31, 2014 and March 31, 2013, respectively. Total expenses for the three months ended March 31, 2014 were \$470,895, which was a \$55,606 increase over 2013 total expenses of \$415,289. During the three months ended March 31, 2014, mineral exploration costs were \$66,744 higher for the three months ended March 31, 2014 as compared to the same period in 2013 as a result of undertaking the following activities on the Songwe Hill project: Progressing the environmental and social impact studies, optimization of the mineral processing studies and metallurgical test work, process plant engineering design work and ongoing mineralogical studies and metallurgical test work, and other costs related to the pre-feasibility study. The Company also continued to progress the geological exploration studies on the Thambani project area. Stock based compensation expense was \$63,682 higher for the three months ended March 31, 2014 as compared to the same period in 2013 as a result of issuing options on September 25, 2013 which vest over a 24 month period. These increases to expenses were off set by a reduction in overhead costs such as travel (\$28,000), shareholder compliance and legal expenses (\$25,460) and audit and accounting fees (\$21,360).

The company’s cash balance as at June 30, 2014 was \$1,272,960 (December 2013 - \$440,319). The increase in the cash resulted from the closing the 2014 Financing, which closed in two tranches on March 24, 2014 and April 3, 2014. The Company raised total proceeds of \$1,804,477, net of share issue costs. Cash used by operating activities during the six months ended June 30, 2014 was (\$1,007,891), as a result of the ongoing general and administrative activities, progressing the Songwe Hill and Thambani projects in Malawi. Cash used by operating activities during

the comparative period ended June 30, 2013, was (\$970,387), which was the result of ongoing general and administrative activities and exploration work on the Songwe Hill and Thambani projects.

DISCUSSION OF OPERATIONS

The Company's corporate strategy is to further delineate and develop the rare earth mineralization at Songwe Hill and to secure additional rare earth element and other mineral opportunities in Malawi and elsewhere. Initially, the Company has established the Republic of Malawi as its platform country, focusing primarily on the Phalombe district, where past exploration indicated strong geological potential for rare earth elements ("REE") and other minerals.

As of June 30, 2014, the Company holds a 100% interest in two exploration licenses in Malawi through its ownership of Lancaster. On January 21, 2010 Lancaster was granted the rights to the Phalombe license and on September 10, 2010 Lancaster was granted the rights to the Thambani license. The Thambani license is at an early stage of exploration, whereas the Songwe Hill rare earth project, located in the Phalombe license, has a 43-101 compliant mineral resource estimate.

1. SONGWE HILL

Through its ownership of Lancaster, the Company holds a 100% interest in an exclusive prospecting license over an area of 1,283 km² in southeast Malawi (the "Phalombe License"). Its main exploration target is the Songwe Hill deposit, which features carbonatite hosted rare earth mineralization and was subject to previous exploration programs in the late 1980s. Lancaster was awarded the license on January 21, 2010.

The Phalombe License runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the Phalombe License have been met. The license was renewed for a further two years on January 21, 2013 and will be due for renewal on January 21, 2015. The Company is continuing to meet the terms and conditions of the license and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress on its work program.

Management believes that all necessary permits for Lancaster's current phase of the exploration program have been obtained.

Songwe is accessible by road from Zomba, the former capital, and Blantyre, the principal commercial town of Malawi. Total travel time from Zomba is approximately 2 hours, which will reduce as infrastructure continues to be upgraded in the area. Songwe is a volcanic vent that is expressed as a steep-sided hill rising some 230m above the surrounding plain.

The drilling programs completed in 2011 and 2012, focused on an area measuring approximately 350 by 100 metres comprising rare earth enriched carbonatite, carbonatite breccia and fenite lithologies, largely exposed at surface. A total of 25 holes were completed in the 2012 Stage 2 program for a total of approximately 4,860 metres to a maximum vertical depth of approximately 350 metres. The Stage 2 program was designed to complement the 13 hole, 2,000 meter Stage 1 drilling program and systematic channel sampling completed in 2011.

On November 22, 2012, Mkango filed a Technical Report (the "Report") for its maiden NI 43-101 mineral resource estimate entitled, *NI 43-101 Technical Report and Mineral Resource Estimate for the Songwe Hill rare Earth Element (REE) Project, Phalombe District, Republic of Malawi*, authored by Scott Swinden, PhD, PGeo and Michael Hall, Pr.Sci.Nat., MAusIMM. The Report's mineral resource estimates, as previously announced, are summarized below. For further details of the mineral resource estimates including breakdowns thereof, please refer to the Report, which is available at www.sedar.com.

Cut-off grade	<i>In-situ</i> Indicated Mineral Resource estimate	<i>In-situ</i> Inferred Mineral Resource estimate
1.0% TREO	13.2 mt grading 1.62% TREO	18.6 mt grading 1.38% TREO
1.5% TREO	6.2 mt grading 2.05% TREO	5.1 mt grading 1.83% TREO

TREO – total rare earth oxides including yttrium. *In-situ* - no geological losses applied. mt - million tonnes

On July 10, 2013, the Company announced a base case metallurgical flow sheet for the Songwe Hill rare earth project and that proof of concept test work on a bench scale had demonstrated that the flow sheet has potential to produce a high grade mixed rare earth carbonate or hydroxide product.

On September 16, 2013, the Company announced the appointment of SNC-Lavalin (Pty) Ltd (SNC) to complete various aspects of the pre-feasibility study, including the beneficiation and hydrometallurgical process plants and project infrastructure. SNC has completed the engineering design work for the processing plant which is required for commercialization.

During the year ending December 31, 2013, the Company was focused on scoping metallurgical test work, environmental studies and commencement of the pre-feasibility study, in addition to regional exploration.

During the six months ended June 30, 2014, the Company has continued to progress the environmental and social impact studies, optimization of the mineral processing studies and metallurgical test work, process plant engineering design work and other costs related to the pre-feasibility study.

2. THAMBANI, MWANZA DISTRICT

Lancaster was granted an additional exploration license by the Malawi Minister of Natural Resources, Energy and Environment on September 10, 2010 in respect of an area of 468 km² in Thambani, Mwanza District, Malawi. Exploration has identified a number of areas with potential for uranium, zircon, corundum and niobium.

The exploration activities conducted during 2011 and 2012 included acquisition of Landsat7 and ASTER satellite imagery for the license area, systematic ground radiometric surveys to confirm and detail previously-known airborne anomalies, reconnaissance geological mapping and litho-geochemical sampling programs. The work has identified a number of potential uranium targets over the Thambani Massif, which is mainly composed of nepheline syenite gneiss, forming two prominent ridges known as Thambani East Ridge and West Ridge. Historical airborne radiometric surveys and ground radiometric survey programs carried out by Mkango have revealed two distinct uranium anomalies occurring along the two ridges: A strong uranium anomaly, measuring approximately 3 kilometre ("km") by 1.5 km, occurs along the length of the Thambani East ridge with a north-south trend and a second uranium anomaly, measuring approximately 1.5 km by 0.4 km occurs on the West Ridge along the western contact of the nepheline syenite body with the eastern biotite-hornblende gneisses.

Initial results from follow up reconnaissance geochemical sampling conducted in 2013 returned locally anomalous uranium values, ranging up to 1,545 ppm U₃O₈, on both Thambani East and West ridges. During the six months ended June 30, 2014, the Company has continued to progress the geological exploration studies on the Thambani project area and is currently focused on analyzing the data collected in 2013 and preparing the geological modeling required to advance the project.

The Thambani License runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the Phalombe License have been met. The license was renewed for a further two years on September 10, 2013. The license will be due for renewal on September 10, 2015. The Company is continuing to meet the terms and conditions of the license and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress on its work program.

PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2012	\$ 10,020	\$ (3,707)	\$ 6,313
Less Depreciation	-	(1,231)	(1,231)
Balance at June 30, 2013	10,020	(4,938)	5,082
Less Depreciation	-	(31)	(31)
Balance at December 31, 2013	10,020	(4,969)	5,051
Less Depreciation	-	(623)	(623)
Balance at June 30, 2014	\$ 10,020	\$ (5,592)	\$ 4,428

Property and equipment include computer and office equipment and a vehicle that was purchased in Malawi for use in the camp.

EXPENDITURES

	For the six months ended		<i>Six month expenditure Change</i>	For the three months ended		<i>Three month expenditure Change</i>
	June 30,			June 30,		
	2014	2013		2014	2013	
<i>General and administrative</i>						
Audit and tax management	13,883	10,785	3,098	17,278	2,922	14,356
Legal fees	17,917	58,131	(40,214)	10,427	32,259	(21,832)
Salaries and consulting fees	330,015	300,856	29,160	188,159	162,464	25,694
Office	65,128	-	65,128	57,004	-	57,004
Travel	59,892	77,695	(17,803)	40,542	30,322	10,220
Shareholder compliance & investor relations	49,874	131,406	(81,531)	37,238	82,851	(45,613)
Malawi office and camp expenses	77,280	123,803	(46,524)	19,350	73,354	(54,005)
<i>Sub total - General and administrative</i>	613,988	702,675	(88,686)	369,997	384,172	(14,175)
<i>Mineral exploration expenditures</i>						
Environmental studies	83,282	194,987	(111,705)	69,748	160,204	(90,456)
Mineral extraction development	348,387	49,774	298,613	284,474	4,339	280,135
Ground rental fee	30,097	39,235	(9,138)	30,097	39,235	(9,138)
Drilling	44,791	-	44,791	-	-	-
Consulting fees & salaries	71,701	6,802	64,899	40,977	6,802	34,175
Technical review and analysis	1,361	8,821	(7,461)	113	7,955	(7,842)
Other	4,963	5,754	(791)	5,591	-	5,591
<i>Sub total - Mineral exploration</i>	584,583	305,375	279,209	431,000	218,536	212,464
<i>Other Expenses</i>						
Stock option expense	141,703	21,520	120,183	68,694	12,188	56,506
Depreciation	623	1,231	(608)	312	616	(305)
Total Expenses	\$1,340,897	\$1,030,801	\$310,098	\$870,003	\$615,512	\$254,491

The Company's principle activities require expenditures which include both exploration and general and administrative expenses. The following discussion describes the general and administrative expenditures in greater detail.

Total expenses increased by \$310,098 from \$1,030,801 to \$1,340,897 for the six months ended June 30, 2013 and June 30, 2014, respectively. The increase in expenses was primarily due to two activities. First, the Company made progress on its Songwe Hill project by working towards completion of the environmental and social impact studies, optimization of the mineral processing studies and metallurgical test work, process plant engineering design work and other costs related to the pre-feasibility study. The Company also continued to progress the geological exploration studies on the Thambani project area and is currently focused on analyzing the data collected in 2013 and prepare the geological modeling required to advance the project. Secondly, the stock based compensation expense increased for the six months ended June 30, 2014 as compared to the same period in 2013 because options were issued September 25, 2013 and May 30, 2014. The increase to mineral exploration and stock option expenses was offset by lower general and administrative costs. The decrease was due to the reduction in shareholder compliance and investor relation costs and legal expenses.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2014, the Company had a working capital surplus of \$942,482 (June 30, 2013 - \$310,384). The Company completed its Qualifying Transaction on December 20, 2010 and raised gross proceeds of C\$7,625,026. The Company raised a further US\$2,114,649, net of share issue costs, as of December 31, 2013 through a second

equity issue. The Company raised a further US\$1,804,877, net of share issue costs, through a third equity issue, which closed in two tranches on March 24, 2014 and April 3, 2014. At June 30, 2014, the Company had a cash balance of \$1,272,960. The original funding and the funding provided by the second equity issue were used to fund metallurgical test work, mine planning, environmental studies and other aspects required to move the Songwe Hill project through the pre-feasibility stage in addition to regional exploration and general corporate purposes. The third equity issue, which closed recently, will fund the next 12 months of expenditures. Management believes that the funds available will generate sufficient cash flow to maintain the Company's ability to meet its short and medium term objectives and milestones.

In addition to the equity financing, the Company was approved to receive the South African Department of Trade and Industry ("DTI") grant on May 26, 2014 for an amount of Rand 7,967,804 (USD\$750,264) under the Capital Projects Feasibility Program. The grant will be dispersed to the Company between June 2014 and March 2015 as the Company meets certain milestones in relation to a number of activities including environmental and social impact studies, mine planning, design of the processing plant and tailings storage facility, flotation and hydrometallurgical optimization and marketing studies.

Since the Company does not expect to generate any revenue in the near future, it must continue to rely upon grants and the sale of its equity and/or debt securities to fund its operations. There can be no assurance that grants or financing, whether debt or equity, will continue to be available to the Company in the amount required at any particular time or for any period or, if available, it can be obtained on terms satisfactory to the Company. The circumstances that could affect the company's ability to secure grants, equity and/or debt financing that are reasonably likely to occur are, without limitation include the state of the capital markets and the prevailing market prices for commodities, in particular the prevailing market prices for REE. The outlook in relation to these factors could change at any time and negatively affect the Company's operations and business. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events, which are reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

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, 2013 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, annually (foreign exchange rate MWK393):

Exploration commitments	\$ 381,680
Ground rent	32,645
Total commitment	\$ 414,325

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, 2013, for an additional two years. The future spending commitments for exploration expenses with the Government of Malawi are 250,000,000 Kwacha, annually (foreign exchange rate MWK393):

Exploration commitments	\$ 636,132
Ground rent	11,908
Total commitment	\$ 648,040

The Company expects to use the funds received from the private placement equity financings to meet these commitments.

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. Therefore, management is confident that the exploration licenses will be renewed in 2015.

RELATED PARTY TRANSACTIONS

- a) 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 six months ended June 30, 2014, the Company had incurred costs of \$26,460 for administrative services. As of June 30, 2014 the Company has an outstanding payable to Leo Mining and Exploration Ltd. (“Leo Mining”) in the amount of \$26,460 (2013 – nil). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however this has been waived.
- b) Digby Wells Environmental (“Digby”), by virtue of a common director, is considered a related party. During the six months ended June 30, 2014, the Company has incurred costs of \$117,621 (2013 – \$113,485) for environmental services. As of June 30, 2014, there was an outstanding payable to Digby for \$34,437 (2013 – \$56,800).
- c) A partner of Stikeman Elliott (London) LLP (“Stikeman”) is a director of the Company and Stikeman is, therefore, considered a related party. During the six months ended June 30, 2014, the Company accrued \$116,202 (2013 – nil) for legal services. These amounts remain unpaid as of June 30, 2014 (2013 – nil).
- d) The Company paid \$211,910 (2013 - \$175,087) for key management and director fees and related costs for the six months ended June 30, 2014. Included in accounts payable and accrued liabilities at June 30, 2014, was \$890 (2013 - \$23,735) due to an officer of the Company. The amount owed are unsecured, due on demand and non-interest bearing.

	2014	2013
Salary	\$ 175,248	\$ 173,074
Share based awards	36,662	-
Total compensation	\$ 211,910	\$ 175,087

ISSUED AND OUTSTANDING SHARE INFORMATION

As at the date of this report, the Company has 73,296,956 Common Shares and 24,019,905 warrants issued. The Company has 6,910,000 stock options issued, of which, 2,487,500 stock options are outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any off balance sheet arrangements or transactions.

ACCOUNTING POLICIES AND ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Details outlining Mkango’s accounting policies are contained in the notes to the consolidated financial statements for the year ended December 31, 2013.

BUSINESS RISKS

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Mkango’s operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

The Company is presently pursuing direct investments in international mining projects. There is no assurance that exploration prospects will be granted in foreign jurisdictions where the Company is making applications, nor is there

assurance the exploration efforts will be successful. If the Company is successful in obtaining exploration prospects in foreign jurisdictions, additional capital will be required to execute the exploration programs.

Rare earth element and related mineralogy exploration, development, production and marketing operations inherently have a number of business risks and uncertainties, including the uncertainty of finding new reserves, the volatility of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations.

The Company manages these risks by contracting competent professional staff, following sound operating practices and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward. The Company conducts its operations in a manner consistent with environmental regulations as stipulated applicable local legislation. Mkango is committed to meeting its responsibilities to protect the environment wherever it may operate and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment. Mkango's operations are subject to the risks normally associated with the mining industry. The Company is committed to respecting the safety of its personnel, the environment and the communities where it has operations.

The mining industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of rare earth elements could result in a significant decrease in the Company's future anticipated revenues. The mining industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production are daily risks in the mining industry.

FINANCIAL INVESTMENTS AND RISK MANAGEMENT

All financial instruments are initially recognized at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), held for- trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair value recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash including short-term deposits are designated as FVTPL and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related party approximates the carrying value. The Company does not hold any other financial instruments. The main financial risks affecting the Company are discussed below:

Fair values

The Company's cash and cash equivalents and accounts receivable and current liabilities are approximated by their carrying values due to the short-term nature of the items.

Concentration risk

The majority of the Company's cash and cash equivalents are held by one major Canadian bank. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and bear minimal risk.

Foreign currency rate 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 Kingdom Sterling, the United States dollar, and the local currency in Malawi (Kwacha). The Company raises its equity in the Canadian dollar and then purchases United Kingdom Sterling, United States dollar and Malawi Kwacha funds to settle liabilities, as required.

As at June 30, 2014 and 2013, the following balances were held by the Company:

<i>As at June 30,</i>	2014	2013
Canadian dollar	\$ 1,249,794	\$ 792,585
United States dollar	5,131	630,872
Malawi Kwacha	18,035	4,382
	<u>\$ 1,272,960</u>	<u>\$ 1,427,839</u>

A 5% reduction in the value of the Canadian dollar in comparison to the United States dollar would cause a change in net loss of approximately \$62,500. 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 loss.

Credit risk

The Company has negligible accounts receivable.

Commodity price risk

The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

Liquidity Risk

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

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

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

Capital Risk

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in mining activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure. The Company has no externally imposed capital requirements.

SUBSEQUENT EVENTS

The notice for the Company's Annual General Meeting was issued. The meeting will be held on September 8, 2014 at 9:00am at the offices of Stikeman Elliott LLP located at 4300 Bankers Hall West, 888-3rd Street SW, Calgary, Alberta, Canada.

DIRECTORS AND OFFICERS AS AT JUNE 30, 2014

William Dawes, Director and Chief Executive Officer
Alexander Lemon, Director and President
Derek Linfield, Chairman of the Board of Directors
David Berg, Audit Committee Chairman, Director and Corporate Secretary
Adrian Reynolds, Director (Audit Committee)
Eugene Chen, Director (Audit Committee)
Sandra Beaulieu, Chief Financial Officer