CONSOLIDATED FINANCIAL STATEMENTS

MKANGO RESOURCES LTD
(formerly Alloy Capital Corp.)
(An Exploration Stage Company)

For the years ended December 31, 2010 and 2009

Management's Responsibility

To the Shareholders of Mkango Resources Ltd. (formerly Alloy Capital Corp.):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors has appointed an Audit Committee, consisting primarily of directors who are neither management nor employees of the Company. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the Shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Signed "Alex Lemon"
Alex Lemon, President

Signed "William Dawes"
William Dawes, CEO

April 26, 2011

Independent Auditors' Report

To the Shareholders of Mkango Resources Ltd. (formerly Alloy Capital Corp.):

We have audited the accompanying consolidated financial statements of Mkango Resources Ltd. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mkango Resources Ltd. and its subsidiary as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter – Going Concern
In forming our opinion on the consolidated financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning the Mkango Resources Ltd's ability to continue as a going concern. This condition indicates the existence of a material uncertainty which may cast significant doubt about Mkango Resources Ltd.'s ability to continue as a going concern.

Meyers Norris Penny LLP

Calgary, Alberta
April 26, 2011

Chartered Accountants

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
Reported in US Dollars

As at	Note	December 31, 2010	December 31, 2009
ASSETS			
Current			
Cash and cash equivalents		$ **7,840,140**	$ -
Accounts receivable		**21,188**	-
Total current assets		**7,861,328**	-
Property and equipment	**6**	**288**	-
Total assets		**7,861,616**	-
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**801,445**	-
Due to related party	**8**	**405,449**	225,234
Total current liabilities		**1,206,894**	225,234
Share capital	**9a**	**5,800,258**	1,000
Warrants	**9b**	**1,543,764**	-
Contributed surplus	**9c**	**168,412**	-
Deficit		**(857,712)**	(226,234)
Total Shareholders' deficiency		**6,654,722**	(225,234)
Total Liabilities & Shareholders' deficiency		$ **7,861,616**	$ -

Going concern (note 2)

Commitments (note 7)

Subsequent events (note 13)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Signed "David Berg"
Director

Signed "Eugene Chen"
Director

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
Reported in US Dollars

Years ended,	**Note**	**December 31, 2010**	December 31, 2009
Revenue			
Interest income		**1,737**	-
Expenses			
Reverse takeover costs	**3**	**103,402**	-
General and administrative		**263,691**	7,048
Mineral exploration expenditures		**338,863**	-
		705,956	7,048
Loss before undernoted		**(704,219)**	(7,048)
Loan forgiven	**8**	**195,401**	
Foreign exchange gain		**190,077**	
Net loss and comprehensive loss		**(318,741)**	(7,048)
Accumulated deficit, beginning of period		**(226,234)**	(219,186)
Recapitalization adjustment	**3**	**(312,737)**	-
Accumulated deficit, end of period		**(857,712)**	(226,234)
Net loss per share - basic and diluted		**$ (0.28)**	$ (7.05)
Weighted average number of shares outstanding - basic and diluted		**1,126,406**	1,000

See accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Reported in US Dollars

Years ended,	Note	December 31, 2010	December 31, 2009
Cash flow from operating activities			
Net loss		**$ (318,741)**	$ (7,048)
Adjustment:			
Loan forgiven		**(195,401)**	-
Unrealized foreign exchange gain		**(194,236)**	-
Change in non-cash working capital			
Accounts receivable		**(21,188)**	-
Accounts payable and accrued liabilities		**801,445**	(4,809)
Cash provided by operations		**71,879**	(11,857)
Cash flow from financing activities			
Cash acquired on reverse takeover	**3**	**312,737**	-
Advances from related party		**375,616**	-
Issue of share capital, net of issue costs		**7,205,243**	-
Cash provided by financing activities		**7,893,596**	-
Cash flow used in investing activities			
Acquisition of property and equipment		**(288)**	-
Effect of exchange rate changes		**(125,047)**	-
Increase (decrease) in cash and cash equivalents		**7,840,140**	(11,857)
Cash and cash equivalents, beginning of year		**-**	-
Cash and cash equivalents, end of year		**$ 7,840,140**	$ (11,857)

See accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd (the "Company" or "Mkango") is rare earth element and associated minerals exploration and development in the Republic of Malawi, Africa.

The Company was incorporated under the name Alloy Capital Corp. ("Alloy") on November 13, 2007 under the laws of the Province of Alberta. On December 20, 2010, Alloy was acquired through a "reverse takeover" by Lancaster Exploration Limited ("Lancaster"). The articles of the Company were amended to change the name of the Company from Alloy Capital Corporation to Mkango Resources Ltd.

Lancaster was incorporated under the laws of the British Virgin Islands on August 3, 2007.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and are reported in the United States dollar.

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. 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.

The Company is in the process of acquiring, exploring and developing its resource interests. The recoverability of the amounts shown for resource interests are dependent upon the existence of an economically recoverable mineral resource, the ability of the Company to obtain necessary financing to complete the development of such mineral resources, and upon future profitable production. The operations of the Company for the next 12 months will be funded by the equity raised during the share issuance which closed December 20, 2010.

3. REVERSE TAKEOVER

On December 20, 2010, Alloy completed its qualifying transaction by the acquisition of Lancaster. Under the terms of the Transaction, Alloy acquired all of the issued and outstanding shares of Lancaster in exchange for the issuance of 19,852,899 shares.

Although Alloy is the legal issuer of the common shares, for accounting purposes Lancaster was considered the acquirer as the shareholder of Lancaster controlled the combined entity after the transaction. The 2009 figures on the consolidated balance sheet, operations and comprehensive loss and deficit and cash flows in this report are those of Lancaster.

As Alloy did not quality as a business, according to the definition in Emerging Issues Committee Abstract #124 – Definition of a Business, this reverse takeover transaction does not constitute a business combination; rather it is treated as an issuance of shares by Lancaster for the net monetary assets of Alloy followed by a recapitalization of Lancaster.

Reported in US Dollars for the years ended December 31, 2010 and 2009

3. REVERSE TAKEOVER *(continued)*

The securities issued were valued at the fair value of the net assets of Alloy at the time of the transaction and were as follows:

Cash	$312,737
Other receivables	8,625
Current liabilities	(15,171)
Total net assets acquired	$306,191

Transaction costs in the amount of $416,139 were incurred in the completion of the Transaction. Under the provisions of EIC-10 – Reverse Takeover Accounting, these costs are to be charged to retained earnings to the extent of cash in the non-operating public company (Mkango), with the excess, if any, to be charged as an expense. At the time of the closing of the transaction Mkango had $312,737 in cash, therefore $103,402 was charged to expense, with $312,737 charged to retained earnings. Tax pools of $161,003 were also acquired resulting in a potential $40,251 future tax asset. No future tax asset will be recognized at this time since, based upon the historical taxable income of Alloy, it cannot be reasonably estimated if it is more likely than not that some or all of the future tax asset will be realized.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of consolidation

The consolidated financial statements are issued under the legal parent, Alloy (now Mkango) but are considered continuation of the consolidated financial statements of the legal subsidiary, Lancaster. All intercompany balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known. Accounts specifically affected by estimates in these consolidated financial statements are property and equipment, evaluation and exploration assets, impairment assessments, accounts payable and accrued liabilities, future income taxes, fair value of warrants and accordingly, contributed surplus.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Asset retirement obligations

Asset retirement costs and liabilities associated with site restoration and abandonment of long-lived assets are initially measured at fair value which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. Such costs are recorded as part of the cost of capitalized mineral properties and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying amount of the liability and an expense. The expense is recorded as accretion expense in the consolidated statement of operations. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset.

To date the Company's mineral properties have not advanced past the exploration stage and, accordingly, all site restoration costs are expensed as incurred.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the declining balance method at rates intended to amortize the cost of assets over their estimated useful lives.

	Rate
Office furniture and equipment	20%

Evaluation and exploration assets

Mineral exploration costs are expensed as incurred until such time as either mineral reserves are proven. Development expenditures are capitalized as evaluation and exploration assets following confirmation of mineral reserves or receipt of permits to commence mining operations and obtaining necessary financing.

Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

The carrying values of resource interests are reviewed by management at least annually to determine if they have become impaired. If impairment is determined to exist, the resource interest will be written down to its net recoverable value.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Evaluation and exploration assets *(continued)*

The ultimate recoverability of the amounts capitalized for the resource interests is dependent upon the delineation of a mineral resource and the subsequent determination of economically recoverable reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in its resource interests have been based on current and expected conditions. However, it is possible that changes could occur which could adversely affect management's estimates and may result in future write downs of resource interest carrying values.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

Per share amounts

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Company at the average market price during the year.

Stock-based compensation

Stock-based compensation is based on the fair value of options granted at the time of the grant using the Black-Scholes option pricing model. For options that vest immediately, the entire estimated fair value of the options is recognized as stock-based compensation at the time of the grant. For options that vest over time, stock-based compensation is recorded over the vesting period of the options. The corresponding amount for stock-based compensation is recognized as contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such stock options is reversed.

Financial Instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets and liabilities, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Cash and cash equivalents are designated as held-for-trading and are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related party are classified as other financial liabilities, which are measured at amortized cost.

The fair value hierarchy established by CICA Handbook Section 3862 — Financial Instruments — Disclosures established three levels to classify the inputs to valuation techniques used to measure fair value. Level one inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level three inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level one inputs and lowest priority to Level three inputs.

Cash and cash equivalents are classified as Level one inputs.

Capital Disclosures

Capital disclosures provide information about

(i) an entity's objectives, policies, and processes for managing capital,
(ii) quantitative data regarding what the entity regards as capital,
(iii) whether the entity has complied with the capital requirements, and
(iv) if it has not complied, the consequences of such non-compliance (see Note 10).

Foreign currency translation

The Company generates all its costs and expenses and keeps projects financed in the United States dollar. Therefore, the Company considers its functional currency and reporting currency to be the United States dollar. Monetary assets and liabilities, denominated in currencies other than the US dollar are translated into US dollars at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate prevailing at the transaction date. Revenues and expenses are translated at average exchange rates throughout the reporting period. Gains and losses on translation of foreign currencies are included in operations.

Reported in US Dollars for the years ended December 31, 2010 and 2009

5. FUTURE ACCOUNTING PRONOUNCEMENTS

Business combinations and non-controlling interests

In January 2009, the Accounting Standards Board ("AcSB") issued Section 1582 Business Combinations, Section 1601 Consolidations and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective January 1, 2011 and are not expected to have an impact on the consolidated financial statements.

Equity

In August 2009, the AcSB issued amendments to Section 3251 Equity as a result of issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the consolidated financial statements.

International Financial Reporting Standards

The AcSB has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. Mkango is currently assessing the impact of the adoption of IFRS on its prospects, financial position and financial statement disclosures.

6. PROPERTY AND EQUIPMENT

			2010	2009
	Cost	Accumulated Depreciation	Net book value	Net book value
Office equipment	288	-	288	-

Reported in US Dollars for the years ended December 31, 2010 and 2009

7. COMMITMENTS

The Company holds a 100% interest in two licenses in Malawi, Africa. The licenses commit the Company to spend exploration capital on the lands referred to by the licenses, and provide the right to share in revenues from potential discoveries, should they prove commercially viable.

The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows for the Songwe licence:

Exploration commitments	290,145
Ground rent	994
	$ 291,139

During the fourth quarter of 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 km^2 in Thambani, Mwanza District, Malawi. The Company has not undertaken any activity on the licence area to date.

The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows for the Thambani licence:

Exploration commitments	323,500
Ground rent	303
	$ 323,803

8. RELATED PARTY TRANSACTIONS

All expenses of Lancaster from incorporation to December 20, 2010, were paid by the former shareholder, Leo Mining, on behalf of the Lancaster. As of December 31, 2010 Lancaster owed Leo Mining $405,449. During the third quarter of 2010, the former shareholder, Leo Mining, forgave $195,401 of the outstanding loan, which represented the amount spent on the abandoned Congo project during 2007 and 2008. The funding received by Lancaster from Leo Mining was spent as follows:

Opening balance, January 1, 2009	$213,377
Accounts payable	4,809
Mineral exploration expenditures	5,000
General & administrative	2,048
Closing balance, December 31, 2009	$225,234
Loan forgiven	(195,401)
Mineral exploration expenditures	213,738
General & administrative	161,878
Closing balance, December 31, 2010	$405,449

Reported in US Dollars for the years ended December 31, 2010 and 2009

8. RELATED PARTY TRANSACTIONS *(continued)*

On June 30, 2010, Lancaster entered into an unsecured promissory note of $138,270 in favour of the Leo Mining which accrues interest at a rate of Libor + 2%. Interest at such rates shall accrue monthly and shall be payable monthly, in arrears, on the first business day of each month commencing on January 1, 2011. This promissory note has been included in the due to related party and has been repaid on January 1, 2011.

The Company and Leo Mining have formalized their relationship with respect to the provision of services. A written agreement sets out the types of services to be provided and the costs associated with such services. Generally the Company shall reimburse Leo Mining for its proportionate cost of salaries, direct and overhead costs attributable to services provided to the Company, pay all disbursements made by Leo Mining on its behalf and pay a handling fee amounting to 15% of amounts paid and invoiced. These costs are recorded in general and administrative expense. The agreement also provides for further advances by Leo Mining should the Company so require and request, such advances to be interest bearing at a rate of LIBOR + 2%. Interest in payable monthly and commences January 1, 2011.

The transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. SHARE CAPITAL

Class A Common Shares: Unlimited

a) Common Shares

	Ref	Number	Value
Balance December 31, 2008 and 2009		1,000	1,000
Outstanding common shares of Alloy at RTO	**(iii)**	5,004,474	443,787
Share consolidation (2.5:1)	**(iii)**	(3,002,684)	-
Elimination of Lancaster shares and Alloy share capital		(1,000)	(443,787)
Acquisition of Lancaster	**Note 3**	19,852,899	306,191
Non-brokered offering	**(i)**	10,696,499	5,254,716
Brokered offering	**(ii)**	4,825,000	2,370,310
Warrants valuation	**(i),(ii)**		(1,543,764)
Share issue costs		-	(588,195)
Balance December 31, 2010		37,376,188	$ 5,800,258

Reported in US Dollars for the years ended December 31, 2010 and 2009

9. SHARE CAPITAL *(continued)*

(i) On December 20, 2010, the Company issued 10,696,499 Units at C$0.50 per Unit pursuant to the Non-Brokered Offering. The C$5,348,250 (US $5,254,716) gross proceeds of the Non-Brokered Offering were allocated between Common Shares C$4,265,443 (US $4,190,845) and Warrants C$1,082,807 (US $1,063,871) based on their relative fair value on the grant date. As compensation, 272,970 finders' warrants (the "Finders' Warrants") were issued. The Finders' Warrants entitle the holder to acquire one finders' unit (the "Finders' Unit") at an exercise price of C$0.50 for a term of 24 months from issuance. Each Finders' Unit consists of one Common Shares and one-half of one (1/2) Warrant. Each whole Warrant (the “Finders’ Unit Warrant”) entitles the holder to acquire a Common Share at an exercise price of C$0.75 for a period of 24 months from issuance of the Finders' Unit Warrant. The resulting 136,485 Finders’ Warrants were valued at C$76,595 (US $75,254). The fair value of the warrants was estimated using the Black-Scholes option pricing model, assuming a volatility of 95%, an expected life of 2.0 years, risk-free interest rate of 1.68% and no dividends. All of the securities issued under the Non-Brokered Offerings were subject to a four month restriction from resale, as stipulated under applicable securities legislation and the TSXV, expiring on April 21, 2011.

(ii) On December 20, 2010, the Company issued 4,825,000 Units at C$0.50 per Unit pursuant to the Brokered Offering co-lead by Haywood Securities Inc. and Byron Securities Limited (collectively, the “Agents”). The C$2,412,500 (US $2,370,310) gross proceeds of the Brokered Offering were allocated between Common Shares C$1,924,065 (US $1,890,417) and Warrants C$488,435 (US $479,893) based on their relative fair value on the grant date. The Agents received 337,750 "Agents Warrants". The Agents' Warrants entitle the holder to acquire one Agents' unit (the "Agents' Unit") at an exercise price of C$0.50 for a term of 24 months from issuance. Each Agents' Unit consists of one Common Share and one-half of one (1/2) Warrant. Each whole Warrant (the “Agents’ Unit Warrant”) entitles the holder to acquire a Common Share at an exercise price of C$0.75 for a period of 24 months from issuance of the Agents' Unit Warrant. The resulting 168,875 Agents’ Unit Warrants were valued at C$94,816 (US $93,158). The fair value of the warrants was estimated using the Black-Scholes option pricing model, assuming a volatility of 95%, an expected life of 2.0 years, risk-free interest rate of 1.68% and no dividends. All of the securities issued under the Brokered Offering are subject to a four month restriction from resale, as stipulated under applicable securities legislation and the TSXV, expiring on April 21, 2011.

(iii) Pursuant to the Qualifying Transaction on December 20, 2010, the Company consolidated its issued and outstanding common shares on a 2.5:1 basis. After the consolidation, Mkango had 2,001,790 common shares issued and outstanding.

b) Warrants

	Ref		Exercise Price	Years	Number of Warrants	USD
Balance, December 31, 2009			-	-	-	
Warrants issued - Non-Brokered Offering	**9(a)(i)**	$	0.75	2.0	5,348,250	1,063,871
Warrants issued - Brokered Offering	**9(a)(ii)**	$	0.75	2.0	2,412,500	479,893
Balance, December 31, 2010		$	0.75	2.0	7,760,750	$ 1,543,764

Reported in US Dollars for the years ended December 31, 2010 and 2009

9. SHARE CAPITAL *(continued)*

c) Contributed surplus

	Ref	Number of warrants	USD
Balance December 31, 2009		-	-
Finders' unit warrants - Non-Brokered Offering	**9(a)(i)**	136,485	75,254
Agents' unit warrants - Brokered Offering	**9(a)(ii)**	168,875	93,158
Balance December 31, 2010		305,360	$168,412

d) Stock options

	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Remaining Contractual Life (years)
Granted - December 1, 2008	200,000	$0.375	200,000	5.0
Balance at December 31, 2010	200,000	$0.375	200,000	3.0

The Company has an evergreen stock option plan established to recognize contributions made by key personnel, to provide incentive to qualified parties to increase their proprietary interest in the Issuer and thereby encourage their continued association with the Issuer.

e) Escrowed shares

There are 21.2 million common shares outstanding at December 31, 2010 held in escrow. On January 5, 2011, 25% of the escrowed shares were released and 25% will be released every six months thereafter.

10. CAPITAL MANAGEMENT

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.

Reported in US Dollars for the years ended December 31, 2010 and 2009

11. INCOME TAXES

Income tax recovery differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates to the loss for the years as follows:

	2010	2009
Loss for the year before taxes	$ (318,741)	$ (7,048)
Statutory tax rate	28.00%	0.00%
Expected income tax reduction	(89,247)	-
Increase resulting from:		
Share issue costs	(104,980)	-
Other	695	-
Tax rate differential between British Virgin Islands and Canada	82,793	-
Change in valuation allowance	110,739	-
Income tax expense	-	-

The components of the future tax asset are summarized below:

	2010	2009
Future income tax asset:		
Loss carryforwards	59,311	-
Share issue costs	91,679	-
Future income tax asset	150,990	-
Less: Valuation allowance	(150,990)	-
	-	-

As at December 31, 2010, the Company has $237,244 in non-capital losses available to claim against future taxable income in Canada. Future tax benefits which may arise as a result of these non-capital losses and share issue costs have not been recognized in these consolidated financial statements and have been offset by a valuation allowance due to the uncertainty of their realization. The non-capital losses expire as follows:

2028	$ 87,672
2029	42,440
2030	107,132
	$ 237,244

12. FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related party approximate their fair value because of the short-term nature of these instruments.

Financial Risk Factors

The Company's risk exposures and the impact on the Company 's consolidated financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. As at December 31, 2010 and 2009, the Company's accounts receivable consists of Goods and Sales Tax receivable and does not have any amounts receivable from trade creditors.

Liquidity Risk

All of the Company's liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from additional financings.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. These fluctuations may be significant.

Interest Rate Risk

The Company is not exposed to significant interest rate risk.

Foreign Currency Risk

The Company has operations in the British Virgin Islands, the Republic of the Congo and the Republic of Malawi subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian dollars, United States dollars, the British Pound and the fluctuation of the United States dollar in relation to these other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

12. FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2010, the following are denominated in Canadian dollars:

Cash and cash equivalents	$	7,797,803
Accounts receivable		21,074
Accounts payable and accrued liabilities		791,436

Commodity Risk

The Company has little commodity risk as it has not yet commenced commercial production.

13. SUBSEQUENT EVENT

The Company issued 350,000 stock options to Directors and Officers on January 17, 2011 and 2,000,000 stock options on February 21, 2011. The options have a strike price of $0.50 and will expire 10 years from the date of grant.