MKANGO RESOURCES LTD

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the years ended December 31, 2010 and 2009

Management's Discussion and Analysis ("MD&A") of Mkango Resources Ltd., formerly named Alloy Capital Corp. ("Mkango" or the "Company") should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2010 and 2009. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are prepared in United States dollars unless otherwise stated. This document is dated May 2, 2011.

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 facts 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, imprecision of reserve estimates, 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 was originally incorporated under the name Alloy Capital Corp. ("Alloy") 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. On December 20, 2010 Mkango completed its Qualifying Transaction by acquiring all of the issued and outstanding shares of Lancaster Exploration Limited ("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 British Virgin Island Act. Lancaster's registered office is located at 56 Administration Drive, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Lancaster is in the business of exploring and developing rare earth elements and associated minerals.

Mkango is a mining exploration company with a portfolio of properties in Malawi, Africa. The Company's headquarters are in Calgary, Alberta, Canada.

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 and has not yet determined whether the interests contain a mineral resource. 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.

HIGHLIGHTS

US Dollars	2010	2009
Cash flow from financing activities	7,893,596	-
Cash used by investing activities	(288)	-
Cash provided by operations	71,879	-
Loss per share - basic and diluted	$ (0.28)	$ (7.05)
Common shares outstanding	37,376,188	1,000
Current assets	$ 7,861,328	$ -
Current liabilities	(1,206,894)	(225,234)
Working capital	$ 6,654,434	$ (225,234)

RESULTS OF OPERATIONS

The Company's corporate strategy is to further delineate the rare earth mineralization at Songwe Hill and secure additional rare earth element and other mineral opportunities in Malawi and elsewhere.

As at December 31, 2010, the Company holds 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 the Thambani was also granted.

SUMMARY OF QUARTERLY RESULTS

	2010				2009			
Total Operations	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	1,737	-	-	-	-	-	-	-
Expenses	465,648	112,917	60,384	67,007	7,048	-	-	-
Net loss for period	(463,911)	(112,917)	(60,384)	(67,007)	(7,048)	-	-	-
Loss per share - basic and diluted	$ (0.28)	$ (112.92)	$ (60.38)	$ (67.01)	$ (7.05)	$ 0.00	$ 0.00	$ 0.00
Total assets	7,861,616	1,045	1,045	1,045	-	-	-	-
Long term debt	-	(204,770)	(352,625)	(292,241)	(225,234)	(218,186)	(218,186)	(218,186)

The Company incurred a net operating loss of $704,219 and $7,048 for the years ended December 31, 2010 and 2009 respectively. The increase in expenses from $7,048 for the year ended December 31, 2009 to $705,956 for the year ended December 31, 2010 was due to costs incurred due to the completion of the Qualifying Transaction, and the Financings all of which closed on December 20, 2010 and to evaluation expenditures incurred on the Songwe Hill property.

Total assets increased to $7,861,616 from $ nil for the period ended December 31, 2010 and 2009 respectively. The Company raised total gross proceeds of $7,625,026 through the Financings which closed on December 20, 2010 in conjunction with the completion of the Qualifying Transaction. The proceeds will be used to fund its exploration program in Malawi over the next twenty-four months.

The Company reported an operating loss of $468,070 and $7,048 for the three months ended December 31, 2010 and 2009, respectively. The increase in expenses was due to the completion of the Qualifying Transaction, and the Financings all of which closed on December 20, 2010 and funds spent to evaluate the Songwe Hill property.

Current liabilities increased significantly from $225,234 at December 31, 2009 to $1,206,894 at December 31, 2010. The increase in current liabilities for the year ended December 31, 2010 is due to two kinds of transactions. First, the Company had $801,445 in outstanding accounts payables which were the result of activities required to close the Qualifying Transaction and the Financings on December 20, 2010 and costs to evaluate the Songwe Hill property. Second, the Company has an outstanding promissory note with the major shareholder, Leo Mining for $405,449 which has been reclassified from long term to short term liabilities. The Company discharged $138,270 in January 2011 and plans to discharge the remaining debt during the next 12 months.

The 2009 comparatives represent the reverse takeover financial results of Lancaster and as such, do not include Mkango's financial results prior to the close of the Transaction on December 20, 2010.

EXPLORATION LICENSES

The Company is a mineral exploration company whose primary business is to conduct exploration activities for rare earth elements and associated minerals. Initially, Lancaster has established the Republic of Malawi as its platform country, focusing primarily on the Phalombe district, where past exploration has indicated strong geological potential for rare earths ("REE") and other minerals.

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 and in 2010, the latter managed by Lancaster. Lancaster was awarded the licence on January 21, 2010.

The 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 license have been met. The expenditure commitment for the license is 43,500,000 Malawian Kwacha (US$290,145 based on MK149.9 exchange rate).

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 1.5 to 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 Songwe vent is choked with agglomerates and breccias amongst which are veins, dykes, patches and more substantial bodies of carbonatite exposed at surface. Carbonatite is the principal REE-bearing rock type.

Significant exploration work was completed at Songwe between 1986 and 1988 by the Japan International Cooperation Agency (JICA) and the Metal Mining Agency of Japan (MMAJ) under an agreement with the Government of Malawi. The work comprised geochemical sampling, trenching, thin section, polished section, XRF and EPMA analysis, and 19 drill holes to 50m.

The logs of the drill holes indicate broad intersections of carbonatite in a number of holes, including 46m grading 1.3% REO, 50m grading 1.5% REO and 50m grading 3.1% REO. Assays were only completed for lanthanum, cerium, neodymium, samarium, europium, terbium, yttrium, strontium, niobium and phosphate. Praseodymium, dysprosium and other heavy rare earths were not analyzed in the drill intersections. The principal minerals hosting the rare earths were identified by JICA/MMAJ as being bastnäsite, synchysite, parisite, strontianite, monazite, pyrochlore and apatite.

Field reconnaissance and geochemical sampling programmes were undertaken during March 2010 and May 2010 with a view to better understanding the mineralisation as reported in the previous work of JICA and MMAJ, also to identify the previously reported zones enriched with rare earth elements and the different lithologies and types of carbonatite.

Results from the 2010 geochemical sampling program were consistent with those of JICA / MMAJ, and included assays for those elements not previously assayed by JICA / MMAJ. Broad zones of carbonatite were identified at surface with grades for the 62 carbonatite samples taken ranging from 0.4% to 5.3% TREO (Average 1.5%). The proportion of HREO (defined here as europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, lutetium) and yttrium for this set of samples averaged 8% of TREO. The average grade of samples exceeding 1% TREO was 1.84%.

Six samples were sent to SGS Canada Inc. for QEMSCANTM and electron microprobe analysis. Results indicate that “parisite group” minerals (parisite, synchysite, bastnäsite and ancylite) are the principal REE carriers for these samples. This is broadly consistent with work completed by JICA / MMAJ.

Mkango concluded that based on the results of historical work by former licensees and recent work by Lancaster, further exploration of the Songwe rare earth carbonatite deposit is justified and warranted. This exploration will include a drilling program and the collection of samples for metallurgical test work.
Planning and preparation commenced for an extensive drilling programme including refurbishment of roads and bridges on the access road to Songwe, visit by drill contractor to the site, topographic and other surveys.

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.

EXPENDITURES

The Company’s principal activities require expenditures which include both capital and general and administrative expenses. The following discussion describes the general and administrative expenditures in greater detail.

Expenses

	For the three months ended December 31,		For the twelve months ended December 31,	
	2010	2009	2010	2009
Audit fees	9,615	-	9,615	-
Legal fees	(101,033)	-	26,358	-
General and administrative	326,609	7,048	227,718	7,048
Reverse takeover costs	103,402	-	103,402	-
New venture expenditures	254,801	-	338,863	
Total	$ 593,394	$ 7,048	$ 705,956	$ 7,048

Expenses of $593,394 and $7,048 were incurred for the three months ended December 31, 2010 and 2009 respectively. Expenses of $705,956 and $7,048 were incurred for the year ended December 31, 2010 and 2009 respectively. The expenses were associated with expenditures required to complete the Qualifying Transaction, and the Financings all of which closed on December 20, 2010. As well, $338,863 was spent during 2010 to evaluate the prospects on the Company's properties. The 2009 comparatives represent the reverse takeover financial results of Lancaster and as such, do not include Mkango's financial results prior to the close of the Transaction on December 20, 2010.

Property and equipment

Other assets		
Opening balance, January 1, 2010	$	-
Additions		288
Disposals		-
Depreciation		-
Closing balance, December 31, 2010	$	288

Property and equipment include computer and office equipment.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, the Company had a working capital surplus of $6,654,434 (working capital deficit at December 31, 2009 - $225,234). The Company completed its Qualifying Transaction on December 20, 2010 and raised gross proceeds of $7,625,026. The funds will be used to fund the exploration program in Malawi for the next 12 months, which is expected to cost a minimum of $2.9 million.

ISSUED AND OUTSTANDING SHARE INFORMATION

On December 20, 2010, the Company completed its Qualifying Transaction and issued 15,521,499 units (the "units" pursuant to the Financings at a price of C$0.50 per unit for gross proceeds of $7,625,026 USD. Each unit is comprised of one common share and one half warrant with each whole warrant exercisable into one common share for a period of 24 months after issuance at an exercise price of C$0.75 per share. The proceeds from the Financings are intended for the Company's exploration program and general working capital requirements. The securities issued pursuant to the Financings were subject to a four-month hold period.

The Company paid compensation under the Financings by way of the issuance of 272,970 finders' units and 337,750 agent units and a collective cash commission of $390,419 USD. Each finder and agent unit is exercisable into one common share and one half warrant for a period of 24 months after issuance at an exercise price of C$0.50 per Unit. Each resulting warrant is exercisable into one common share at an exercise price of $0.75. The fair of the warrants was $168,412 USD. The Company incurred an additional $29,364 USD in legal and regulatory fees for total share issue costs of $588,195 USD.

As at the date of this report, the Company had 37,376,188 Common Shares, 8,066,110 warrants and 2,550,000 stock options issued and 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 GAAP 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 audited consolidated financial statements for the period ended December 31, 2010.

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.

IFRS CONVERSION

In 2008, the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board confirmed that International Financial Reporting Standard ("IFRS") will replace GAAP effective January 1, 2011 for publically accountable enterprises. The adoption date of January 1, 2011 will require the restatement of comparative amounts beginning in January 2010, including an opening balance sheet as at January 1, 2010.

The Company has assessed the differences between Canadian GAAP and IFRS and has taken the applicable exemptions available at the transition date, January 1, 2010.

The Company's functional currency will not change as a result of its transition to IFRS. The Company continued to raise equity in Canadian dollars and incurs significant expenditures in the United States dollar. Therefore, the Company will continue to use the United States dollar as its functional currency.

No onerous contracts and no decommissioning were required as of the date of transition. Therefore, no exemptions were taken in regards to these classifications of liabilities.

FINANCIAL INVESTMENTS AND RISK MANAGEMENT

All financial instruments are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into one of the following categories: “held-for-trading” (assets and liabilities), “loans and receivables”, financial assets “available-for-sale”, financial assets “held-to maturity”, and “other financial liabilities”. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities "held-for-trading" are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets "held-to-maturity", “loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. Cash and cash equivalents are classified as "held-for-trading”. Accounts receivable is classified as "loans and receivables". Accounts payable and accrued liabilities and due to related party are designated as "other financial liabilities". The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company is exposed to financial risk in a range of financial instruments including accounts receivable, accounts payable. 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
A majority of the Company’s cash and cash equivalents are held by one major Canadian banking institution. 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.

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.

COMMITMENTS

The Company was granted an exploration licence for the Songwe property on January 21, 2010. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi are as follows:

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

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 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:

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

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

On June 30, 2010, Lancaster entered into an unsecured promissory note in favour of the Leo Mining to repay the outstanding loan. Pursuant to the terms of the promissory note $138,270 plus 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 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 noted above in general and administrative. 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.

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.

DIRECTORS AND OFFICERS AS AT DECEMBER 31, 2010

William Dawes, Director and Chief Executive Officer
Alexander Lemon, Director and President
David Berg, Director, Chief Financial Officer and Corporate Secretary
Arthur Wong, Director
Eugene Chen, Director