Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the years ended December 31, 2020 and 2019

Independent auditor's report to the members of Mkango Resources Limited

Opinion on the financial statements

We have audited the financial statements of Mkango Resources Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended *31 December 2020* which comprise Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Cash Flows, Consolidated Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as issued by the IASB. Our audit opinion does not cover the Parent Company financial statements.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Group financial statements in the UK, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements that indicates that the Company has performed scenario planning in its going concern assessment which could indicate a requirement for additional funding in the forecast period. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report and the management discussion and analysis, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of management

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Directors are responsible for assessing the Group's and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Other matters

The consolidated figures at December 31, 2019 and for the year then ended were audited by another firm of Chartered Professional Accountants who expressed an unqualified opinion in their report dated April 28, 2020.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian Auditing Standards (CAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Group's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e gives a true and fair view).
- Are required to report on consolidated financial statements, obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the audit opinion.

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

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

The partner in charge of the audit resulting in this independent auditor's report is Laura Pingree

BDO LLP

Chartered Accountants

London, United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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

As at	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current			
Cash		4,924,567	9,530,017
Government remittances receivable		106,436	89,259
Other receivables		2,119	3,721
Prepaid expenses and accrued income		94,867	111,357
Total current assets		5,127,989	9,734,354
Property and equipment	5	64,536	95,880
Investment in associate	6	586,863	-
Total assets		5,779,388	9,830,234
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	254,927	410,645
Due to related parties	7	34,172	57,733
Grant received in advance	9	-	48,083
Total liabilities		289,099	516,461
SHAREHOLDERS' EQUITY			
Share capital	10	12,563,211	12,563,211
Shares to be issued reserve		346,983	-
Contributed surplus		3,495,724	3,969,283
Accumulated other comprehensive income		120,897	106,413
Retained deficit		(6,313,809)	(4,413,119)
Total shareholders' equity of parent		10,213,006	12,225,788
Non-controlling interest	11	(4,722,717)	(2,912,015)
Total equity		5,490,289	9,313,773
Total liabilities and shareholders' equity		5,779,388	9,830,234

Approved on behalf of the Board:

(signed)

William Dawes, CEO and Director

(signed)

Alex Lemon, President, Director

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the year ended December 31, 2020	2019
Expenses			
General and administrative		**1,747,593**	1,904,795
Mineral project expenditures		**2,372,416**	1,721,749
Research and development		**-**	25,750
		4,120,009	3,652,294
Other items			
Interest income		**(8,641)**	(98)
Share of associated company losses		**40,239**	-
Fair value losses		**49,583**	-
Unrealized gain on revaluation of warrants		**-**	(692,089)
Realized gain on revaluation of warrants		**-**	(8,280)
Foreign exchange (gain) loss		**(133,404)**	87,409
Net loss before tax		**4,067,786**	3,039,236
Income tax	14	**-**	-
Net loss after tax		**4,067,786**	3,039,236
Net loss attributable to			
Common shareholders		**2,253,628**	1,668,652
Non-controlling interest	11	**1,814,158**	1,370,584
Attributable net loss		**4,067,786**	3,039,236
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		**(17,940)**	(22,325)
Total comprehensive loss		**4,049,846**	3,016,911
Total comprehensive loss attributable to			
Common shareholders		**2,239,144**	1,652,494
Non-controlling interest	11	**1,810,702**	1,364,417
Attributable comprehensive loss		**4,049,846**	3,016,911
Net loss per share – basic and diluted	15	**(0.017)**	(0.013)

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the years ended December 30, 2020	2019
Cash flow used by operating activities			
Net (loss) for the period		**$(4,067,786)**	$(3,039,236)
Items not affecting cash:			
Unrealized gain on revaluation of warrants		**-**	(692,089)
Realized gain on revaluation of warrants		**-**	(8,280)
Share based payments	10(b)	**118,254**	265,087
Share of associated company losses	6	**40,239**	-
Fair value losses	6	**49,583**	-
Depreciation	5	**31,344**	29,829
Unrealized foreign exchange loss (gain)		**(162,400)**	104,924
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		**914**	5,163
Grant received in advance, net of expenditures		**(47,856)**	(15,779)
Due to related parties		**(23,561)**	(278,071)
Accounts payable and accrued liabilities		**(155,718)**	57,300
Cash flow used by operating activities		**(4,216,987)**	(3,571,152)
Cash flow provided by financing activities			
Investment by non-controlling investor	11	**-**	9,255,853
Share issue expenses	11	**-**	(188,826)
Stock options exercised	10(b)	-	75,811
Warrants exercised	10(b)	**106,897**	1,687,093
Cash flow provided by financing activities		**106,897**	10,829,931
Cash flow used by investing activities			
Addition of assets	5	**-**	(50,350)
Investment in associate	6	**(641,930)**	-
Cash flow used by investing activities		**(641,930)**	(50,350)
Effect of exchange rate changes on cash		**146,570**	(79,114)
Change in cash		**(4,605,450)**	7,129,315
Cash at the beginning of the period		**9,530,017**	2,400,702
Cash at the end of the period		**$4,924,567**	$9,530,017

Refer to accompanying notes to the consolidated financial statements.

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

	Note	Share capital	Shares to be issued reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2018		10,641,411	-	3,774,020	84,088	(11,150,914)	(2,208,178)	1,140,427
Warrants exercised	10(a)	1,776,165	-	-	-	-	-	1,776,165
Stock options exercised	10(a)	145,635	-	(69,824)	-	-	-	75,811
Share based payments	10(b)	-	-	265,087	-	-	-	265,087
Acquisition of shares by NCI	11	-	-	-	-	-	660,580	660,580
Foreign exchange movement	-	-	-	-	-	-	6,167	6,167
Gain on recognition of NCI	11	-	-	-	-	8,406,447	-	8,406,447
Total comprehensive income		-	-	-	22,325	(1,668,652)	(1,370,584)	(3,016,911)
Balance at December 31, 2019		12,563,211	-	3,969,283	106,413	(4,413,119)	(2,912,015)	9,313,773
Warrants exercised	10(b)	-	346,983	(591,813)	-	352,938	-	108,108
Share based payments	10(b)	-	-	118,254	-	-	-	118,254
Total comprehensive income		-	-	-	14,484	(2,253,628)	(1,810,702)	(4,049,846)
Balance at December 31, 2020		**12,563,211**	**346,983**	**3,495,724**	**120,897**	**(6,313,809)**	**(4,722,717)**	**5,490,289**

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

Mkango was originally incorporated under the name Alloy Capital Corp. ("Alloy") on November 13, 2007, under the laws of the Province of Alberta, Canada. On December 20, 2010, Alloy was acquired through a "reverse takeover" by Lancaster Exploration ("Lancaster BVI"). The articles of Mkango were amended to change its name from Alloy Capital Corp. to Mkango Resources Ltd. On October 15, 2018, Mkango discontinued its incorporation in Alberta, Canada and became incorporated in the province of British Columbia, Canada. Mkango's registered office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

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

Lancaster BVI was incorporated on August 3, 2007, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. Lancaster BVI is 51% owned by Mkango and 49% owned by Talaxis Limited ("Talaxis") (Note 9). Lancaster BVI's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 19, 2011, Lancaster Exploration Limited ("Lancaster Malawi") was incorporated under the laws of Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI and as such, is 49% owned by Talaxis.

On January 3, 2018, Maginito Limited ("Maginito") was incorporated under the laws of the British Virgin Islands ("BVI"). Maginito is 75.5% owned by Mkango and 24.5% owned by Talaxis (Note 9). Maginito's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

MKA Exploration Limited ("MKA Exploration") was incorporated on July 25, 2018, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. MKA Exploration is 100% owned by Mkango. MKA Exploration's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 6, 2019, MKA Exploration Limited ("MKA Exploration Malawi") was incorporated under the laws of Malawi. MKA Exploration Malawi is 100% owned by MKA Exploration. MKA Exploration Malawi's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

Mkango and its subsidiaries are collectively referred to as the "Company" in these consolidated financial statements.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 30, 2021.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

The Company's consolidated cash balance at December 31, 2020 was $4,924,567 and working capital was $4,838,890. The Company's cash requirement for the next twelve months relates mainly to the completion of its Definitive Feasibility Study for its Songwe Hill Project. The Company's cash flow forecast reflects that the Company will have sufficient funding to meet its planned expenditure for at least the next 12 months. However, risks to the forecast include the risks of the timing of the publication of the Definitive Feasibility Study and the risk of over-spend. Under these circumstances, the Company could require additional funding over the period. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. To address this material uncertainty, the Directors have identified a range of options to mitigate these risks and to ensure sufficient funding is available, including the timing of the expenditure which is largely at the discretion of the directors and the ability to draw on other available funding resources.

In considering going concern the Directors haven taken into account the possible ongoing impact of the COVID-19 pandemic, which has had a significant impact on businesses through the restrictions put in place by the governments of countries in which the Company operates regarding travel, business operations and isolation/quarantine orders.

Whilst the Definitive Feasibility Study is continuing with work underway in Malawi, Australia, South Africa and the UK, the Company believes it is inevitable that some work streams may still be impacted, however the degree of impact is currently uncertain. The Company is targeting completion of the Definitive Feasibility Study in the fourth quarter of 2021. We note, however, that extended periods of COVID-19 disruption may further impact this timing.

2. GOING CONCERN (continued)

Operations at HyProMag are continuing where possible, in line with current UK government guidelines. At this time, it is unknown the extent of the ongoing impact the COVID-19 pandemic may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by countries to fight the virus.

The directors are satisfied that the Company has sufficient funding resources in order to meet its committed expenditure for at least the next 12 months and hence prepare these consolidated financial statements on a going concern basis.

These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect on January 1, 2020.

(b) Basis of presentation and measurement

These consolidated financial statements have been prepared using the historical cost convention, except for certain financial instruments and share-based payment transactions measured at fair value.

(c) Functional and presentation currency and principles of consolidation

The consolidated financial statements are presented in United States dollars ("US dollars"), which is the functional currency of Mkango. Below is a listing of ownership percentage and functional currency of Mkango's subsidiaries:

Entity Name	Functional Currency	Ownership Percentage
Lancaster Exploration ("Lancaster BVI")	US Dollar	51% (2019: 51%)
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	51% (2019: 51%)
Maginito Limited ("Maginito")	Pound Sterling	75.5% (2019: 75.5%)
MKA Exploration Limited ("MKA Exploration")	US Dollar	100% (2019: 100%)
MKA Exploration Limited ("MKA Exploration Malawi")	Malawi Kwacha	100% (2019: 100%)

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

(d) Non-controlling interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' equity (deficiency). Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 51% of the common outstanding shares of its subsidiaries, Lancaster BVI, Lancaster Malawi and 75.5% of the outstanding common shares of Maginito. These consolidated financial statements include 100% of the assets and liabilities related to Lancaster BVI, Lancaster Malawi and Maginito and include a non-controlling interest representing 49% of Lancaster BVI, 49% of Lancaster Malawi and 24.5% of Maginito's assets and liabilities not owned by the Company.

(e) Use of estimates and judgments

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

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

3. BASIS OF PRESENTATION (continued)

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

(i) Exploration and evaluation expenditures

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

(ii) Investment in associate

The investment in HyProMag Limited includes the initial equity investment, the option to acquire further shares and the convertible loan. Both the convertible loan and the option to acquire further shares were a condition of the subscription of 25% of the share capital of the associate and therefore considered as part of the investment.

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

(i) Impairment of investment in associate

In considering whether there is any impairment to the carrying value of the investment in the associate management considered whether there were any indicators of impairment. They reviewed the financial statements and budgeted cash flows for the associate which did not show any indications of financial difficulty and considered the technology applied by the associate which is innovative and proven. The Company concluded that no impairment indicators were evident.

(ii) Measurement of the fair value of options and loans related to investment in associate

The Company has made estimates in determining the fair value of the option to acquire further shares in its associate and options held by the Company and its associate's options to convert the loan and the fair value of the convertible loan to its associate. The Company uses different option-pricing models to determine the fair value of the various options and considers the probability of whether the loan will be converted or not. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of initial recognition and at each period end.

(f) Accounting standards, amendments and interpretations effective in 2020

The Group has not adopted any standards or interpretations in advance of the required implementation dates.

The following new standards, amendments or interpretations applicable to periods beginning on or after 1 January 2020 were each effective as of 1 January 2020:

Amendments to References to the Conceptual Framework in IFRS Standards
Definition of a Business (Amendments to IFRS 3)
Definition of Material (Amendments to IAS 1 and IAS 8)
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
The adoption of this standard has had no effect on the financial results of the Group.

(Reported in US dollars unless indicated otherwise)

3. BASIS OF PRESENTATION (continued)

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future periods and which the Group has chosen not to adopt early. None of these are expected to have a significant effect on the Group, in particular

	Effective Date
Covid 19-Related rent Concession (Amendment to IFRS 16)	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate benchmark Reform – Phase 2	1 January 2021
Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16)	1 January 2022
Onerous Contracts- Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2022
IFRS 17 Insurance Contracts, including Amendments to IFRS 17	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) and Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023

Certain new IFRS standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Mineral exploration expenditures and property and equipment assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

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

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

Property and equipment ("P&E") expenditures

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Mineral exploration expenditures and property and equipment assets (continued)

(ii) Subsequent costs

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

(iii) Depletion and depreciation

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

Corporate assets, consisting of office equipment, computer equipment, plant and machinery and vehicles are recorded at cost and are depreciated over the estimated useful life of the asset on a straight-line basis over a four-year period and plant and equipment over five years. Depreciation methods, useful lives and residual values are reviewed at each reporting date. All asset classes are depreciated on a straight line basis over 4 years.

(b) Investment in associates

Where the company has significant influence to participate in the financial and operating policy of an investee but does not have control or joint control of the investee then the Company accounts for its interest in the investee under the equity method of accounting. Under the equity method the Company recognizes its initial investment at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income after the date of acquisition.

(c) Government grants

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

(d) Impairment

(i) Non-financial assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment (continued)

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

(e) Decommissioning obligation

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

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at December 31, 2020 and 2019, no decommissioning obligation has been recognised.

(f) Foreign currency translation

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

Foreign currency translation adjustments are required each reporting period for Lancaster Malawi, MKA Exploration, MKA Exploration Malawi and Maginito, subsidiaries of the Company, having functional currencies which differ from the presentation currency. Non-financial assets are translated at the historical rate. Financial assets and liabilities are translated at exchange rates in effect at the date of the consolidated statement of financial position and expenses are translated at the average rate for the year with gains or losses recognized in other comprehensive loss.

(g) Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Per share amounts

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

(i) Share-based payments

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

(j) Cash

Cash is comprised of cash on hand.

(k) Provisions

The Company makes a distinction between:

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

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

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

(l) Financial instruments

Classification and measurement of financial assets and liabilities

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

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

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

(Reported in US dollars unless indicated otherwise)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

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

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

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

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

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

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

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

Impairment of financial assets

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

5. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at December 31, 2018	289	-	48,397	80,011	128,697
Additions	-	50,350	-	-	50,350
Balance at December 31, 2019	289	50,350	48,397	80,011	179,047
Balance at December 31, 2020	**289**	**50,350**	**48,397**	**80,011**	**179,047**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation					
Balance at December 31, 2018	289	-	38,842	14,207	53,338
Depreciation	-	2,517	7,309	20,003	29,829
Balance at December 31, 2019	289	2,517	46,151	34,210	83,167
Depreciation	-	10,070	1,272	20,002	31,344
Balance at December 31, 2020	**289**	**12,587**	**47,423**	**54,212**	**114,511**
Net Book Value					
December 31, 2019	-	47,833	2,246	45,801	95,880
December 31, 2020	**-**	**37,763**	**974**	**25,799**	**64,536**

(Reported in US dollars unless indicated otherwise)

6. INVESTMENT IN ASSOCIATE

In January 2020 the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling, incorporated in England and Wales. Maginito has invested an initial $391,650 (£300,000) for a 25% interest in HyProMag and has an option to invest a further £1 million to increase its interest up to 49%. On May 1, 2020 the Company invested a further $250,280 (£200,000) in HyProMag Limited under a convertible loan facility agreement dated January 9, 2020. The convertible loan has a maturity date of April 30, 2023, carries interest at 5% per annum and is unsecured.

	Total
Cost	
Balance at December 31, 2019	-
Additions	641,930
Share of post-acquisition losses	(40,239)
Fair value losses	(49.583)
Foreign exchange difference	34,755
Balance at December 31, 2020	**586,863**

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

	December 31, 2020	**January 9 2020**
Assets and liabilities		
Non-current assets	440,417	5,088
Current assets	115,869	23,856
Current liabilities	(9,163)	(5,392)
Non-current liabilities	(284,375)	-
Net assets	262,748	23,552
Company's share of net assets	65,687	5,888
Results		
Revenue	-	-
Losses	160,597	-

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

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) Leo Mining Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers who have an ownership in, and exercise significant influence over, both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services, which may be provided, and the costs associated with such services. The Company repays the disbursements made by Leo Mining on its behalf. During the year ended December 31, 2020, the Company had incurred costs of $71,441 (December 31, 2019 - $78,821) for reimbursed exploration and administrative expenses. As of December 31, 2020, the Company has an outstanding advance to Leo Mining in the amount of $4,891 (December 31, 2019 – payable - $4,177). The amount is unsecured and due on demand.

b) Talaxis is considered a related party as it holds more than 10% of the shares of the Company. Transactions and balances with Talaxis are disclosed throughout the consolidated financial statements.

c) Zenith Advisory Services Pty Ltd. ("Zenith") is considered a related party because a director of the Company is a principal of Zenith. During the year ended December 31, 2020, the Company has incurred costs of $16,000 (December 31, 2019 - £16,000) in respect of director's fees and $nil (December 31, 2019 - $191,403) for advisory services related to the Talaxis investments. As of December 31, 2020, the Company has an outstanding payable of $4,000 to Zenith (December 31, 2019 – $nil). The current liabilities due to Zenith are unsecured, due on demand and non-interest bearing.

(Reported in US dollars unless indicated otherwise)

7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Company incurred costs of $597,297 (December 31, 2019 – $741,466) for key management fees and director fees for the year ended December 31, 2020. The non-executive Directors of the Company are each entitled to a fee of $16,000 per year and the Chairman of the Board is entitled to a fee of $40,000 per year. As of December 31, 2020, the Company has an outstanding payable due to directors and officers of $35,063 (December 31, 2019 – $53,566). The current liabilities due to key management and directors are unsecured, due on demand and non-interest bearing.

December 31,	**2020**	2019
Consulting fees	**387,411**	383,213
Director fees	**94,798**	104,000
Share-based payments	**115,088**	254,253
Total key management compensation	**597,297**	741,466

The amounts due to related parties at December 31, 2020 were as follows:

December 31,		**2020**	2019
Due to related parties with common directors	7 (a)(c)	**(891)**	4,177
Due to key management and directors	7 (d)	**35,063**	53,556
Total due to related parties		**34,172**	57,733

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Accounts payable	**98,567**	309,002
Other payables	**5.380**	6,592
Accrued liabilities	**150,980**	95,051
	254,927	410,645

9. GRANT RECEIVED IN ADVANCE

Grant received in advance is comprised of grant funds, which have been received and partially consumed. The Company, through its wholly owned subsidiary, Lancaster BVI, is the recipient of a grant from the HiTech AlkCarb research program (the "Grant Program") led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation ("EU"). Under the Grant Program, the Company will receive up to €168,553 ($189,241). During 2016, the Company received an initial advance of €42,611 ($47,922). On February 6, 2018, Lancaster BVI received a further €49,589 ($61,199). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data ("Qualifying Expenditures") have qualified for use of the grant funding. During the period ended March 31, 2018, the Company received confirmation from the EU that the $46,772 of Qualifying Expenditures reported in July 2017 had been approved. An additional $55,927 of Qualifying Expenditures was submitted for approval on March 31, 2019. On August 12, 2019, Lancaster BVI received a further €39,507 ($43,675) in grants under the Grant Program and received a final amount of €54,672 ($64,732) on September 11, 2020**.**

December 31,	**2020**	2019
Balance, beginning of period	**48,083**	63,862
Claim submitted	**(108,553)**	(55,927)
Received during the year	**64,732**	43,675
Foreign exchange difference	**(4,262)**	(3,527)
Balance, end of period	-	48,083

(Reported in US dollars unless indicated otherwise)

Maximum grant funds to be received	-	41,127
Unused portion of grant funds to be received	-	89,210

10. SHARE CAPITAL

a) Common shares

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

	Ref	Number	Amount
Closing balance December 31, 2018		111,299,188	$10,641,411
Warrants exercised	(i)	20,081,533	1,776,165
Stock options exercised	(ii)	1,620,000	145,635
Closing balance December 31, 2019		133,000,721	12,563,211
Closing balance December 31, 2020		**133,000,721**	**$12,563,211**

(i) During the year ended December 31, 2019, a total of 20,081,533 warrants (note 9b) were exercised for a $1,776,165 total increase in common share value of which $1,687,093 was cash consideration.

- On March 20, 2019, a total of 1,136,363 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £75,000 ($99,267) in relation to the June 15, 2016 warrants issuance.
- On April 11, 2019, a total of 515,151 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £34,000 ($44,449) in relation to the June 15, 2016 warrants issuance.
- On June 3, 2019, a total of 878,030 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £57,950 ($73,110) in relation to the June 15, 2016 warrants issuance.
- On June 5, 2019, a total of 325,779 warrants were exercised at a price of $0.08 ($0.066) per common share for total cash consideration of £21,501 ($27,255) in relation to the June 15, 2016 warrants issuance.
- On June 17, 2019, a total of 17,226,210 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £1,136,930 ($1,443,012) in relation to the June 15, 2016 warrants issuance.

(ii) On January 1, 2019, 1,620,000 stock options of the Company were exercised for an increase in common share valuation of $145,635 of which $75,811 was cash consideration.

(Reported in US dollars unless indicated otherwise)

10. SHARE CAPITAL (continued)

b) Share-based payments

(i) Stock options

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

The share-based payments expense that has been recognized in the consolidated statements of comprehensive loss for the year ended December 31, 2020 is $118,254 (2019 - $265,087). The stock options issued pursuant to the Plan vest over a term of 24 months.

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

	December 31, 2020		*December 31, 2019*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**13,025,000**	**$0.06**	10,845,000	$0.06
Exercised	**-**	**$0.05**	(1,620,000)	$0.05
Cancelled	**(837,500)**	**$0.10**	-	-
Forfeited	**(367,500)**	**$0.10**	-	-
Granted – March 11, 2019	**-**	**-**	1,900,000	$0.11
Granted – August 29, 2019	**-**	**-**	1,900,000	$0.08
Total options	**11,820,000**	**$0.07**	13,025,000	$0.07
Vested options	**10,610,000**	**$0.06**	9,197,500	$0.06

The following provides a summary of the stock option plan as at December 31, 2020:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 - 0.13	**11,820,000**	**6.7**	**$ 0.07**	**10,610,000**

The following provides a summary of the stock option plan as at December 31, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 – 0.12	**13,025,000**	**7.7**	**$ 0.07**	**9,197,500**

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the options that were issued March 11, 2019 and August 29, 2019:

	Mar 11, 2019	Aug 29, 2019
Risk free interest rate (%)	1.75	1.14
Expected life (yrs)	10.0	10.0
Expected volatility (%)	127	125
Dividends	Nil	Nil
Forfeiture rate (%)	5.0	5.0
Weighted average fair value at issuance	$0.10	$0.08

(Reported in US dollars unless indicated otherwise)

10. SHARE CAPITAL (continued)

(ii) Broker warrants

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2020:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
N/A	**Nil**	**Nil**	**N/A**	**nil**

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.087	**13,200,000**	**1.0**	**$ 0.087**	**13,200,000**

During 2016, the Company engaged (the "Engagement") Zenith Advisory Services Pty Ltd. ("Zenith") to facilitate an introduction to Noble and to provide consulting services in respect of the Company entering into a rare earths collaboration agreement with Noble. Under the terms of the Engagement, Zenith is entitled to a fee comprising 10% of the number of warrants issued to Noble under the Collaboration Agreement. The Company issued 1,200,000 warrants to Zenith under the terms of the Engagement. On October 26, 2017, as part of the Talaxis placement, Zenith cancelled these warrants. Immediately upon cancellation, the Company issued 1,200,000 replacement common share purchase warrants to Zenith. Each warrant entitled Zenith to acquire one common share of the Company at a price of 6.6 UK pence until December 31, 2020.

During 2016, the Company entered into the "Collaboration Agreement" with Noble Group ("Noble"). Under the terms of the Collaboration Agreement, the Company issued 12,000,000 common share purchase warrants to Noble. Each warrant entitled Noble to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2018. The warrants gave Noble the right to acquire up to a 12.5% interest in the Company. On October 26, 2017, as part of the Talaxis placement, Noble cancelled these warrants. Immediately upon cancellation, the Company issued 12,000,000 replacement common share purchase warrants to Noble's wholly owned subsidiary, Talaxis. Each warrant entitled Talaxis to acquire one common share of the Company at a price of 6.6 UK pence until December 31, 2020.

In December 2020, the terms of the 12,000,000 warrants held by Talaxis were amended to allow a cashless exercise of the warrants for 1,000,000 common shares. In addition, the 1,200,000 warrants held by Zenith Advisory Services Pty. Ltd. were exercised for cash of £79,200 ($106,897). The shares were issued subsequent to the year end and an amount of $346,983 was credited to the shares to be issued reserve. An amount of $352,938 has been transferred to retained profits and an amount of $238,875 has been transferred to the shares to be issued reserve totalling $591,813 in respect of the share based payment charge recognised at the date of issue of the warrants.

11. NON-CONTROLLING INTEREST

As of December 31, 2020, Mkango beneficially owns 51% of Lancaster BVI and Talaxis owns a 49% non-controlling interest and holds 49% of the voting rights. On March 28, 2019, Lancaster BVI received the most recent Talaxis investment, £7 million ($9,255,853), which increased the non-controlling interest from 20% to 49%.

Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI. Therefore, Talaxis also owns a 49% non-controlling interest of Lancaster Malawi ("Consolidated Lancaster").

Lancaster BVI

On January 19, 2018, Talaxis invested £2 million ($2,772,822) and on January 24, 2018, Talaxis invested a further £3 million ($4,091,728) in Consolidated Lancaster. The investments were pursuant to the agreement dated November 16, 2017, whereby, Talaxis was entitled to receive up to a 49% interest in Mkango's subsidiary, Consolidated Lancaster, by investing an aggregate of £12 million in Consolidated Lancaster due in three tranches to complete the bankable feasibility study. On March 21, 2019, Mkango announced that it had filed the updated NI 43-101 Technical Resource Report ("Technical Report") for the Songwe Hill Rare Earths Project. The filing of the Technical Report meant that Mkango had fulfilled the condition for Talaxis to advance the third and final tranche of

(Reported in US dollars unless indicated otherwise)

11. NON-CONTROLLING INTEREST (CONTINUED)

investment, in accordance with the May 18, 2018 definitive agreements between Mkango and Talaxis. On March 28, 2019, £7 million ($9,255,853) was received from Talaxis, which increased the Talaxis ownership in Consolidated Lancaster to 49%.

On May 18, 2018, Mkango signed the Songwe Joint Venture Agreement, the Talaxis Investment Agreement and the Cooperation Deed (the "Definitive Agreements") in relation to the Talaxis Agreement. Talaxis has been granted an option to acquire a further 26% interest in Lancaster BVI by arranging funding, including investing the equity component, for development of the Songwe Hill Rare Earths Project, which, based on the pre-feasibility study prepared by MSA Group (Pty) Ltd dated December 1, 2015, would total US$216 million, following the completion of the bankable feasibility study. If the Option is exercised, Mkango will hold a 25% interest in Lancaster BVI, free carried until production.

The Company paid cash finders' fees totalling $168,823 following the receipt of the second tranche of the Talaxis investment and a further $182,801 following the receipt of the third tranche of the Talaxis investment to Zenith. Including legal fees, the total share issue expenses during 2019 was $188,826 (2018: $169,883).

The Talaxis non-controlling interest ("NCI") is as follows:

		Talaxis NCI Ownership
	December 31, 2020	**December 31, 2019**
Lancaster BVI	49%	49%

	Condensed consolidated Lancaster Financials as of	
	December 31, 2020	**December 31, 2019**
Net loss	(3,657,046)	(3,290,223)
Total loss attributable to non-controlling interest	**(1,791,951)**	**(1,342,339)**
Comprehensive loss	(3,695,745)	(3,292,004)
Total comprehensive loss attributable to non-controlling interest	**(1,793,274)**	**(1,343,212)**
Current assets	2,499,891	6,563,269
Non-current assets	64,536	95,880
Current liabilities	(212,120)	(275,489)
Non-current liabilities	(12,348,728)	(12,720,337)
Net liabilities	**(9,996,421)**	**(6,336,677)**
Cash flows used in operating activities	(4,101,271)	(3,481,761)
Cash flows provided by financing activities	-	9,067,027
Cash flows used in investing activities	-	(50,350)
Effect of exchange rate changes on cash	70,711	(156,164)
Net (decrease)/increase in cash	**(4,032,758)**	**5,378,752**

Maginito

As at December 31, 2020, Mkango beneficially owns 75.5% of Maginito and Talaxis owns a 24.5% non-controlling interest and holds 24.5% of the voting rights.

On January 24, 2018, Talaxis invested £1 million ($1,274,947) to receive a 24.5% interest in Maginito. Maginito is focused on downstream green technology opportunities in the rare earths supply chain, encompassing neodymium (NdFeB) magnet recycling as well as innovative rare earth alloy, magnet and separation technologies. The use of proceeds included expenditures under an agreement with Metalysis Limited focused on advanced alloys using neodymium or praseodymium with other elements for magnet development. Payment of an additional £1 million was conditional on completion of a definitive Investment Agreement in respect of Maginito and

(Reported in US dollars unless indicated otherwise)

11. NON-CONTROLLING INTEREST (CONTINUED)

successful completion of the second phase of the research and development programme with Metalysis, upon which Talaxis will hold a 49% interest in Maginito.

Mkango retains a 75.5% interest in Maginito. Maginito is continuing to evaluate new downstream opportunities relating to the rare earths supply chain including the investment in HyProMag Limited which was made in January 2020.

The Talaxis non-controlling interest ("NCI") is as follows:

		Talaxis NCI Ownership
	December 31, 2020	**December 31, 2019**
Maginito	24.5%	24.5%

		Maginito Financials as of
	December 31, 2020	**December 31, 2019**
Net loss	(90,635)	(115,285)
Total loss attributable to non-controlling interest	**(22,206)**	**(28,245)**
Comprehensive loss	(71,132)	(86,552)
Total comprehensive loss attributable to non-controlling interest	**(17,428)**	**(21,205)**
Current assets	129,588	867,672
Non-current assets	586,863	-
Current liabilities	-	(80,090)
Net assets	**716.451**	**787,582**
Cash flows used in operating activities	(109,075)	(38,121)
Cash flows used in investing activities	(641,930)	-
Effect of exchange rate changes on cash	3,759	30,510
Net decrease in cash	**(747,246)**	**(7,611)**

Movements in NCI

Balance brought forward	**(2,912,015)**	**(2,208,178)**
Total comprehensive loss attributable to non-controlling interests:		
Lancaster BVI	(1,793,274)	(1,343,212)
Maginito	(17,428)	(21,205)
Acquisition of shares in Lancaster BVI by Talaxis	-	660,580
Balance carried forward	**(4,722,717)**	**(2,912,015)**

12. FINANCIAL INSTRUMENTS

Determination of fair values

Financial assets and liabilities have been classified into the following categories: (i) fair value through profit or loss and, (ii) amortized costs. Each category has a defined basis of measurement. If a category is measured at fair value, any changes in fair value is recognized in the consolidated financial statements of comprehensive loss.

12. FINANCIAL INSTRUMENTS (CONTINUED)

In establishing fair value, the Company uses a fair value hierarchy based on levels defined below:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The option to acquire shares in the associate and the convertible loan derivative financial instruments are measured at level 3. The fair value of these financial instruments was determined using binomial pricing models for American and Bermudan style options. The key input to these models is the volatility rate which was in the range of 67 to 70% which is an estimate based on volatility rates of comparable companies to Mkango Resources Limited. A 10% increase in the volatility rate would result in an additional charge to the income statement of $1,833 and a 10% decrease would result in a credit to the income statement of $3,280.

The carrying value of cash, restricted cash, government and other receivables, accounts payable and accrued liabilities, and amounts due to related parties, approximates the fair value due to their short-term nature and maturity.

Financial risk management

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

Foreign currency risk

The functional and presentation currency of the Company is the US dollar. The Company enters into transactions denominated in the CAD, the US dollar, the Euro, the GBP, the Australian dollar, the South African Rand and Malawian Kwacha. The Company raises its equity in the CAD, and the GBP, and then purchases the US dollar, the Australian dollar, the South African Rand, the Euro and the Malawian Kwacha to settle liabilities. The Company minimizes exposure to foreign exchange loss by converting funds to the appropriate currencies upon receipt of funding based on the expected use of the various foreign currencies. The Company's exposure to foreign currency risk as at December 31, 2020 and 2019, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	December 31, 2020	December 31, 2019
Cash:		
Canadian Dollar	**78,559**	78,622
United States Dollar	**586,954**	2,435,854
Pound Sterling	**2,602,026**	4,131,522
Euro	**288,469**	476,002
Malawian Kwacha	**18,438**	34,168
Australian Dollar	**1,350,121**	2,373,849
	4,924,567	9,530,017

A 5% reduction in the value of the CAD, Euro, GBP and Australian Dollar in comparison to the US Dollar would cause a change in net loss of approximately $216,000 (2019: $350,000). A 5% change in the value of the Malawian Kwacha in relation to the US Dollar would not cause a material change in net loss.

Interest rate risk

(Reported in US dollars unless indicated otherwise)

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

12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

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

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

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

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may require the Company to conduct equity issuances or obtain other forms of financing.The Company manages its liquidity risk by maintaining adequate cash and is actively seeking additional funding to improve its exposure to liquidity risk. The Company continually monitors its actual and forecast cash flows to ensure that there are adequate reserves to meet the maturing profiles of its financial liabilities.

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2020:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	254,927	254,927	-
Due to related parties	34,172	34,172	-

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2019:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	410,645	410,645	-
Due to related parties	57,733	57,733	-

Credit risk

The Company's principal financial assets are cash. The credit risk on cash is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies.

13. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Government of Malawi on a three-year basis. The license was subsequently renewed for a third time during December 2018 for a further two years, valid January 21, 2019 to January 21, 2021. The future spending commitments for the exploration rights with the Government of Malawi were 150,000,000 Kwacha ($200,535) over two years which have been met. The licence was due for renewal on January 21, 2021. The Company has applied for a licence renewal. There have been Malawi government administrative delays in granting licence renewals in Malawi due to the effects of Covid-19 on government departments. The licence is in good standing and the company is currently waiting for documentation to be issued.

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 square kilometres in Thambani, Mwanza District, Malawi. The license was issued by the Government of Malawi on a three-year basis, originally, and was subsequently renewed on September 10, 2015, for an additional two years when the Company requested a reduction in the license area to the current 136.9 square kilometres. The license has subsequently renewed for a further 2 years to September 9, 2021. The commitment for exploration expenses with the Government of Malawi under the licence is 25,000,000 Kwacha ($33,783) over two years which had been met by December 31, 2020.

(Reported in US dollars unless indicated otherwise)

On November 10, 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 98.48 square kilometres in Chimimbe Hill, Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license was due for renewal on November 10, 2020. There have been Malawi government administrative delays in granting licence renewals in Malawi due to the effects of Covid-19 on government departments. The Company has applied for the licence to be renewed for a period of two years. The licence is in good standing waiting for documentation to be issued.

13. COMMITMENTS (continued)

On May 13, 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 868.69 square kilometres in Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license will be up for renewal on May 13, 2022. The commitment for exploration expenses with the Government of Malawi under the license is 50,000,000 Kwacha ($67,568) over three years which had been met by December 31, 2020.

The Company is continuing to meet the terms and conditions of its exploration licenses and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programs. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi.

14. TAXES

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

For the year ended December 31,	**2020**	2019
Net loss before taxes	**(4,024,656)**	(3,039,236)
Statutory tax rate	**27%**	26.5%
Expected tax recovery	**(1,086,658)**	(805,398)
Increase (decrease) in taxes:		
Revaluation of warrants	**-**	(183,404)
Share-based payments	**31,929**	70,248
Foreign exchange	**-**	1,954
Tax rate differential between Canada and foreign jurisdictions (30% in Malawi, 0% in BVI)	**896,915**	783,542
Change in deferred tax assets not recognized	**157,814**	133,058
Tax expense (recovery)	**-**	-

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

For the year ended December 31,	**2020**	2019
Evaluation and exploration costs	**7,740,774**	7,403,601
Loss carry forwards _Canada	**3,972,990**	3,737,531
Loss carry forwards - Malawi	**4,193,265**	4,002,836
Share issue costs	**10,529**	169,255
	15,917,558	15,313,223

The tax value of the losses is as follows:

For the year ended December 31,	**2020**	2019
Evaluation and exploration costs	**2,322,232**	2,221,080
Loss carry forwards _Canada	**1,072,707**	990,446
Loss carry forwards - Malawi	**1,257,980**	1,200,851
Share issue costs	**2,843**	44,853
	4,655,762	4,457,230

(Reported in US dollars unless indicated otherwise)

14. TAXES (continued)

As at December 31, 2020, the Company had $3,972,990 (2019 –$3,737,531) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount $
2028	60,772
2029	25,246
2030	46,336
2031	175,088
2032	336,242
2033	457,682
2034	528,669
2035	496,914
2036	467,175
2037	470,620
2038	628,222
2039	119,716
2040	160,308
	3,972,990

As at December 31, 2020, the Company had $4,193,265 (2019 – $4,002,836) in non-capital losses available to claim against future taxable income in Malawi. These non-capital losses do not expire.

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

15. LOSS PER SHARE

The calculation of basic earnings per share at 31 December 2020 was based on the loss attributable to ordinary shareholders of $2,253,628 (2019: loss $1,668,652) and a weighted average number of Ordinary Shares outstanding during the period ended 31 December 2020 of 133,000,721 (2019: 124,173,150) calculated as follows:

	2020	2019
Loss attributable to the ordinary shareholders	**$2,253,628**	$1,668,652
Number of Ordinary shares outstanding at beginning of year	**133,000,721**	111,299,188
Effect of shares issued during the year	-	12,873,962
Weighted average number of Ordinary shares outstanding	**133,000,721**	124,173,150
Loss per share	**0.017**	0.013

16. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of $10,213,006, as at December 31, 2020 (December 31, 2019 –$12,225,788). The operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million ($16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 11), from an additional investment of £1 million ($1.3 million) in Maginito during 2018, from the proceeds received upon the exercise of warrants (Note 10(a)(i)) and from the proceeds received upon the exercise of stock options (Note 10(a)(ii)) in 2019.

The Company's objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has no externally imposed capital requirements.

17. SUBSEQUENT EVENTS

Subsequent to the end of the year, the Company announced the amendment of the terms of warrants held by Talaxis to enable a cashless exercise of the warrants by Talaxis. Pursuant to the cashless exercise, the Company agreed to issue 1,000,000 Shares in lieu of payment for 12,000,000 Shares at £0.066. This significantly reduced the dilution to other Mkango shareholders and avoided the Company issuing 12,000,000 Shares at a significant discount to the current market price of the Shares. The Company also announced that Shaun Treacy, a non-executive director of the Company, had exercised warrants for 1,200,000 Shares at a price of £0.066 each for total proceeds of £79,200 ($106,897).

On December 21, 2020 the Company announced the appointment of Bacchus Capital Advisers Limited ("**Bacchus Capital**") as strategic and financial adviser, encompassing mergers and acquisition, takeover defence, strategic and other financial advice. Under the terms of the advisory agreement, Bacchus Capital will receive a fee of $30,000 and 325,000 shares on January 31, 2021 and a further 625,000 shares on December 18, 2021 should its engagement continue to that date.