



Consolidated Financial Statements

**MKANGO RESOURCES LTD.**

For the years ended December 31, 2021 and 2020

## Independent Auditor's Report

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To the Shareholders of Mkango Resources Limited

### Opinion

We have audited the financial statements of Mkango Resources Limited (the 'Parent Company') and its subsidiaries (the 'Group'), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive loss, consolidated statement of cash flows and consolidated changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its 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.

### 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 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 requires 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.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## **Other Information**

Management is responsible for the other information. The other information comprises:

- information included in the annual report,
- the management discussion and analysis other than the financial statements and our auditor's report thereon.

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 identified above 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 and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **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 generally accepted auditing standards 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 management.
- Conclude on the appropriateness of management's 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 our auditor's report. However, future events or conditions may cause the Entity 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.
- 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 our 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 engagement partner on 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).

*27 April 2022*

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

As at	Notes	December 31, 2021	December 31, 2020
<b>ASSETS</b>			
Current			
Cash		4,446,850	4,924,567
Government remittances receivable	5	11,644	6,680
Other receivables		1,962	2,119
Prepaid expenses		84,504	94,867
Total current assets		4,544,960	5,028,233
Property and equipment	6	40,577	64,536
Investment in associate	7	556,677	586,863
Government remittances receivable	5	120,953	99,756
Total assets		5,263,167	5,779,388
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	9	1,244,438	254,927
Due to related parties	8	14,134	34,172
Total liabilities		1,258,572	289,099
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	38,148,271	12,563,211
Shares to be issued reserve		231,103	346,983
Contributed surplus		4,536,898	3,495,724
Accumulated other comprehensive income		122,378	120,897
Retained deficit		(39,034,055)	(6,313,809)
Total shareholders' equity of parent		4,004,595	10,213,006
Non-controlling interest	11	-	(4,722,717)
Total equity		4,004,595	5,490,289
Total liabilities and shareholders' equity		5,263,167	5,779,388

Approved on behalf of the Board:

(signed)

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William Dawes, CEO and Director

(signed)

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Derek Linfield, Non-Executive  
Chairman, Director

Refer to accompanying notes to the consolidated financial statements.

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

		For the year ended December 31,	
	Notes	2021	2020
<b>Expenses</b>			
General and administrative		3,516,064	1,747,593
Mineral project expenditures		6,013,085	2,372,416
		<b>9,529,149</b>	<b>4,120,009</b>
<b>Other items</b>			
Interest income		(11,134)	(8,641)
Share of associated company losses	7	7,620	40,239
Fair value losses	7	17,116	49,583
Foreign exchange (gain) loss		164,322	(133,404)
<b>Net loss before tax</b>		<b>9,707,073</b>	<b>4,067,786</b>
<b>Income tax</b>	14	-	-
<b>Net loss after tax</b>		<b>9,707,073</b>	<b>4,067,786</b>
<b>Net loss attributable to</b>			
Common shareholders		6,781,562	2,253,628
Non-controlling interest		2,925,511	1,814,158
<b>Attributable net loss</b>		<b>9,707,073</b>	<b>4,067,786</b>
<b>Other comprehensive loss</b>			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translating foreign operations		2,225	(17,940)
<b>Total comprehensive loss</b>		<b>9,709,298</b>	<b>4,049,846</b>
<b>Total comprehensive loss attributable to</b>			
Common shareholders		6,780,081	2,239,144
Non-controlling interest	11	2,929,217	1,810,702
<b>Attributable comprehensive loss</b>		<b>9,709,298</b>	<b>4,049,846</b>
<b>Net loss per share – basic and diluted</b>	15	<b>(0.044)</b>	<b>(0.017)</b>

Refer to accompanying notes to the consolidated financial statements.

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

		For the years ended December 31,	
	Notes	2021	2020
<b>Cash flow used by operating activities</b>			
Net (loss) for the period		(9,707,073)	(4,067,786)
Items not affecting cash:			
Share based payments	10(b)	1,371,148	118,254
Share of associated company losses	7	7,620	40,239
Fair value losses	7	17,116	49,583
Depreciation	6	31,544	31,344
Unrealized foreign exchange loss (gain)		190,775	(162,400)
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		(15,640)	914
Grant received in advance, net of expenditures		-	(47,856)
Due to related parties		(20,038)	(23,561)
Accounts payable and accrued liabilities		989,510	(155,718)
Cash flow used by operating activities		(7,135,038)	(4,216,987)
<b>Cash flow provided by financing activities</b>			
Share issue proceeds	10(a)	7,636,232	-
Share issue expenses	10(a)	(878,365)	-
Stock options exercised	10(a)	94,589	-
Warrants exercised	10(a)	-	106,897
Cash flow provided by financing activities		6,852,456	106,897
<b>Cash flow used by investing activities</b>			
Addition of assets	6	(7,585)	-
Investment in associate	7	-	(641,930)
Cash flow used by investing activities		(7,585)	(641,930)
Effect of exchange rate changes on cash		(187,550)	146,570
<b>Change in cash</b>		(477,717)	(4,605,450)
Cash at the beginning of the period		4,924,567	9,530,017
<b>Cash at the end of the period</b>		4,446,850	4,924,567

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, 2019		12,563,211	-	3,969,283	106,413	(4,413,119)	(2,912,015)	9,313,773
Loss for the year		-	-	-	-	(2,253,628)	(1,814,158)	(4,067,786)
Other comprehensive income:								
Foreign exchange gains		-	-	-	14,484	-	3,456	17,940
Total comprehensive loss		-	-	-	14,484	(2,253,628)	(1,810,702)	(4,049,846)
Transactions with owners:								
Warrants exercised	10(a)	-	346,983	(591,813)	-	352,938	-	108,108
Share based payments	10(b)	-	-	118,254	-	-	-	118,254
			346,983	(473,559)		352,938		226,362
Balance at December 31, 2020		12,563,211	346,983	3,495,724	120,897	(6,313,809)	(4,722,717)	5,490,289
Loss for the year		-	-	-	-	(6,781,562)	(2,925,511)	(9,707,073)
Other comprehensive income:								
Foreign exchange gains		-	-	-	1,481	-	(3,706)	(2,225)
Total comprehensive loss		-	-	-	1,481	(6,781,562)	(2,929,217)	(9,709,298)
Transactions with owners:								
Issue of shares	10(a)	7,983,215	(346,983)	-	-	-	-	7,636,232
Share issue costs	10(a)	(513,521)	-	55,399	-	-	-	(458,122)
Issue of shares on exercise of options	10(a)	94,589	-	(82,926)	-	82,926	-	94,589
Share based payments	10(b)	71,344	231,103	1,068,701	-	-	-	1,371,148
Acquisition of NCI	11	17,949,433	-	-	-	(26,021,610)	7,651,934	(420,243)
		25,585,060	(115,880)	1,041,174	-	(25,938,684)	7,651,934	8,223,604
<b>Balance at December 31, 2021</b>		<b>38,148,271</b>	<b>231,103</b>	<b>4,536,898</b>	<b>122,378</b>	<b>(39,034,055)</b>	<b>-</b>	<b>4,004,595</b>

Refer to accompanying notes to the consolidated financial statements.



**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**(Reported in US dollars unless indicated otherwise)**

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**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 100% owned by Mkango. 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.

On January 3, 2018, Maginito Limited (“Maginito”) was incorporated under the laws of the British Virgin Islands (“BVI”). Maginito is 100% owned by Mkango. 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 Polska Sp. z o.o. (“Mkango Polska”) was incorporated under the laws of Poland and 100% ownership was acquired by the Company on March 22, 2021. Mkango Polska is developing a rare earth separation plant at Pulawy in Poland, working with Grupa Azoty Pulawy, Poland’s leading chemicals company and the second largest manufacturer of nitrogen and compound fertilizers in the European Union. The Pulawy Separation Plant is expected to process the purified mixed rare earth carbonate derived from Songwe Hill into separated rare earth oxides.

Mkango Rare Earths UK Limited (“Mkango UK”) was incorporated on June 23, 2021 under the laws of England and Wales. Mkango UK is 100% owned by the Company. Mkango UK was established to further develop the Company’s rare earths strategy in the UK.

Mkango and its subsidiaries are collectively referred to as the “Group” in these consolidated financial statements.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 27, 2022.

**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, 2021 was \$4,446,850 and working capital was \$3,286,388. The Company has sufficient funding to complete the Definitive Feasibility Study based on budgeted expenditure and is reviewing future funding alternatives to provide investment for ongoing and new projects and to provide working capital sufficient to fund Mkango’s operations in the 12 months from the date of signing the financial statements.

Risks to the forecast include the risks of the timing of the publication of the Definitive Feasibility Study and the risk of being unable to secure funding. 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 continuing discussions with funding providers.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
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**2. GOING CONCERN (continued)**

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.

The Definitive Feasibility Study is nearing completion and the Company believes that the remaining work streams will not be seriously impacted. The Company is targeting completion of the Definitive Feasibility Study in the second quarter of 2022. We note, however, that further COVID-19 outbreaks may impact this timing.

The Directors do not consider the current conflict in Ukraine will have a significant impact on the Company at its current stage of development.

The directors are satisfied that the Company will have 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, 2021.

**(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:

<b>Entity Name</b>	<b>Functional Currency</b>	<b>Ownership Percentage</b>
Lancaster Exploration (“Lancaster BVI”)	US Dollar	100% (2020: 51%)
Lancaster Exploration Limited (“Lancaster Malawi”)	Malawi Kwacha	100% (2020: 51%)
Maginito Limited (“Maginito”)	Pound Sterling	100% (2020: 75.5%)
MKA Exploration Limited (“MKA Exploration”)	US Dollar	100% (2020: 100%)
MKA Exploration Limited (“MKA Exploration Malawi”)	Malawi Kwacha	100% (2020: 100%)
Mkango Rare Earths UK Limited (‘Mkango UK’)	Pound Sterling	100% (2020 – N/A)
Mkango Polska Sp. z o.o. (‘Mkango Polska’)	Euros	100% (2020 – N/A)

The consolidated financial statements of the Company include the accounts of the Company and its seven 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 acquired the non-controlling interests on November 1, 2021. The acquisition has been accounted for in equity as a transaction between shareholders.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
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**(Reported in US dollars unless indicated otherwise)**

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**3. BASIS OF PRESENTATION (continued)**

**(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.

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

(i) Investment in associate

Following the conversion of a convertible loan the investment in HyProMag Limited includes an equity investment and the option to acquire further shares. The option to acquire further shares was a condition of the original share subscription and therefore considered as part of the investment.

(ii) 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 was any objective evidence 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.

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

(i) Measurement of the fair value of option 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. The Company uses different option-pricing models to determine the fair value of the option. 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 2021**

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

The following new standards, amendments or interpretations were adopted from 1 January 2021:

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
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	

The adoption of these standards has had no effect on the financial results of the Group.

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
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
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
Definition of Accounting Estimates (amendments to IAS8)	1 January 2023
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS12)	1 January 2023

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
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**3. BASIS OF PRESENTATION (continued)**

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.

**(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.

**MKANGO RESOURCES LTD**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**(Reported in US dollars unless indicated otherwise)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Investment in associate**

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. The investment in associates included a convertible loan, an option to convert the loan and an option to acquire further shares, which were fair valued through profit and loss. The accounting treatment for the options is included in note 4(l).

**(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.

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, 2021 and 2020, no decommissioning obligation has been recognised.

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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. 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 profit or loss.

Foreign currency translation adjustments are required each reporting period for subsidiaries of the Company, having functional currencies which differ from the presentation currency. 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.

**(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.

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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.
- 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.

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**5. GOVERNMENT REMITTANCES RECEIVABLE**

December 31	2021	2020
Recoverable within one year	11,644	6,680
Recoverable after one year	120,953	99,756
	<b>132,597</b>	<b>106,436</b>

The amount recoverable after one year relates to Malawian VAT which will be recovered from future mining taxes.

**6. PROPERTY AND EQUIPMENT**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
<b>Cost</b>					
Balance at December 31, 2019 and 2020	289	50,350	48,397	80,011	179,047
Additions	-	-	7,585	-	7,585
<b>Balance at December 31, 2021</b>	<b>289</b>	<b>50,350</b>	<b>55,982</b>	<b>80,011</b>	<b>186,632</b>
<b>Accumulated Depreciation</b>					
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
Depreciation	-	10,070	1,471	20,003	31,544
<b>Balance at December 31, 2021</b>	<b>289</b>	<b>12,587</b>	<b>48,894</b>	<b>74,215</b>	<b>146,055</b>
<b>Net Book Value</b>					
December 31, 2020	-	37,763	974	25,799	64,536
<b>December 31, 2021</b>	<b>-</b>	<b>27,693</b>	<b>7,088</b>	<b>5,796</b>	<b>40,577</b>

**7. 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.

	December 31, 2021	December 31, 2020
<b>Cost or valuation</b>		
Opening balance	586,863	-
Additions	-	641,930
Share of post-acquisition losses	(7,620)	(40,239)
Fair value losses	(17,116)	(49,583)
Foreign exchange difference	(5,450)	34,755
<b>Closing balance</b>	<b>556,677</b>	<b>586,863</b>

The fair value losses line includes the fair value gain on convertible loan prior to conversion of \$186,443 and the fair value loss on option to acquire further shares of \$203,559. The convertible loan was converted at the option of HyProMag on October 21, 2021, increasing Mkango’s interest to 41.6%. The convertible loan value prior to the fair value adjustment was \$272,999 and included within the opening balance line in the table above.



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**7. INVESTMENT IN ASSOCIATE (CONTINUED)**

	December 31, 2021	December 31, 2020
<b>Cost or valuation</b>		
Shares	570,127	111,807
Share of post-acquisition losses	(49,899)	(42,844)
Convertible loan	-	272,999
Options	36,449	244,901
<b>Total investment</b>	<b>556,677</b>	<b>586,863</b>

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

	December 31, 2021	December 31, 2020
<b>Assets and liabilities</b>		
Non-current assets	340,049	440,417
Current assets	206,199	115,869
Current liabilities	(42,836)	(9,163)
Non-current liabilities	-	(284,375)
Net assets	503,412	262,748
Company's share of net assets	209,419	65,687
<b>Results</b>		
Revenue	-	-
Losses	27,448	160,597

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

**8. RELATED PARTY TRANSACTIONS AND BALANCES**

**Key management compensation was as follows:**

	2021				2020		
	Consulting fees	Director fees	Other compensation	Total	Consulting fees	Director fees	Total
A Lemon	227,137	-	-	227,137	193,706	-	193,706
W Dawes	227,137	-	-	227,137	193,705		193,705
D Linfield	-	59,577	-	59,577	-	40,000	40,000
A Reynolds	-	15,739	80,832	96,571	-	16,000	16,000
S Muir	-	21,950	-	21,950	-	16,000	16,000
S Treacy*	-	21,950	-	21,950	-	16,000	16,000
S du Toit	-	-	-	-	-	6,798	6,798
S Motteram	-	-	-	-	-	-	-
	<b>454,274</b>	<b>119,216</b>	<b>80,832</b>	<b>654,322</b>	<b>387,411</b>	<b>94,798</b>	<b>482,209</b>

\* paid to Zenith Advisory Services Pty Ltd.

## MKANGO RESOURCES LTD

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#### 8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Share options granted to directors were as follows:

##### Year ended 31 December 2021

	Outstanding at beginning of period	Granted	Exercised	Outstanding at end of period
A Lemon	2,960,000	1,240,000	-	4,200,000
W Dawes	2,960,000	1,240,000	-	4,200,000
D Linfield	2,160,000	1,000,000	-	3,160,000
A Reynolds	1,240,000	-	(1,240,000)	-
S Muir	945,000	250,000	-	1,195,000
S Treacy	945,000	250,000	-	1,195,000
S Motteram	-	-	-	-
	11,210,000	3,980,000	(1,240,000)	13,950,000

##### Year ended 31 December 2020

	Outstanding at beginning of period	Granted	Lapsed	Outstanding at end of period
A Lemon	2,960,000	-	-	2,960,000
W Dawes	2,960,000	-	-	2,960,000
D Linfield	2,160,000	-	-	2,160,000
A Reynolds	1,240,000	-	-	1,240,000
S Muir	945,000	-	-	945,000
S Treacy	945,000	-	-	945,000
S du Toit	945,000	-	(945,000)	-
	12,155,000	-	(945,000)	11,210,000

##### Other related party transactions

- a) Leo Mining Exploration Ltd. (“Leo Mining”) is considered related by virtue of common directors and officers who have an ownership in, and exercise significant influence over, both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services, which may be provided, and the costs associated with such services. The Company repays the disbursements made by Leo Mining on its behalf. During the year ended December 31, 2021, the Company had incurred costs of \$59,975 (December 31, 2020 - \$71,441) for reimbursed exploration and administrative expenses. As of December 31, 2021, the Company has an outstanding advance to Leo Mining in the amount of \$5,764 (December 31, 2020 – receivable - \$4,891). The amount is unsecured and due on demand.
- b) Talaxis is considered a related party. Transactions and balances with Talaxis are disclosed throughout the consolidated financial statements.
- c) The amounts due to related parties at December 31, 2021 were as follows:

December 31		2021	2020
Due to related parties with common directors	7 (a)(c)	486	(891)
Due to key management and directors	7 (d)	13,648	35,063
Total due to related parties		14,134	34,172

- d) On November 1, 2021 Derek Linfield subscribed for 2,916,666 common shares of the Company were issued at \$0.33 (GBP 0.24).

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2021	2020
Accounts payable	1,011,257	98,567
Other payables	28,083	5,380
Accrued liabilities	205,098	150,980
	<b>1,244,438</b>	<b>254,927</b>

**10. SHARE CAPITAL AND RESERVES**

**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, 2019 and December 31, 2020		133,000,721	\$12,563,211
Warrants exercised	(i)	2,200,000	346,983
Issued in exchange for services	(ii)	866,666	248,477
Issued for cash	(iii), (v)	23,007,495	7,122,711
Stock options exercised	(iv)	1,340,000	94,589
Issued in exchange for share in subsidiaries	(vi)	54,166,666	17,772,300
<b>Closing balance December 31, 2021</b>		<b>214,581,548</b>	<b>\$38,148,271</b>

- (i) In December 2020, the terms of 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, 1,200,000 warrants held by Zenith Advisory Services Pty. Ltd. were exercised for cash of £79,200 (\$106,897). On January 12, 2021, 2,200,000 shares were issued and an amount of \$346,983 was transferred from the shares to be issued reserve to share capital.
- (ii) On January 31, 2021, 325,000 common shares of the Company were issued under the terms of the advisory agreement with Bacchus Capital Advisers Limited and an amount of \$71,344 was credited to share capital. On November 1, 2021, a further 541,666 common shares of the Company were issued to Bacchus Capital Advisers Limited and an amount of \$177,133 was credited to share capital.
- (iii) On August 11, 2021, 18,424,163 common shares of the Company were issued at \$0.33 (GBP 0.24) for gross proceeds of \$6,130,702. Share issue expenses of \$464,502 were incurred including a share-based payment charge of \$38,019 relating to the issue of 351,765 broker warrants which are exercisable at \$0.33 (GBP 0.24) for a period of one year from the date of issue of August 16, 2021.
- (iv) On October 28, 2021, 1,340,000 common shares of the Company were issued for cash proceeds of \$94,589.
- (v) On November 1, 2021, 4,583,332 common shares of the Company were issued at \$0.33 (GBP 0.24) for gross proceeds of \$1,505,529. Share issue expenses of \$49,018 were incurred including a share-based payment charge of \$17,380 relating to the issue of 33,333 broker warrants which are exercisable at \$0.33 (GBP 0.24) for a period of one year from the date of issue of November 1, 2021.

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### 10. SHARE CAPITAL AND RESERVES (continued)

- (vi) On November 1, 2021, 54,166,666 common shares of the Company were issued to Talaxis in exchange for a 49% interest in Lancaster BVI and a 24.5% interest in Maginito. Amounts of \$17,772,300 for shares issued to Talaxis and \$177,133 for share-settled transaction costs were credited to share capital. Share issue expenses of \$597,376 were incurred and debited to the retained deficit.

#### 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, 2021 is \$661,386 (2020 - \$118,254). The stock options issued pursuant to the Plan vest over a term of 18 to 24 months.

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

	<i>December 31, 2021</i>		<i>December 31, 2020</i>	
	<i>Options</i>	<i>Weighted– average exercise price</i>	<i>Options</i>	<i>Weighted– average exercise price</i>
Opening	11,820,000	\$0.06	13,025,000	\$0.06
Exercised	(1,340,000)	\$0.07	-	\$0.05
Cancelled	-	-	(837,500)	\$0.10
Forfeited	-	-	(367,500)	\$0.10
Granted – August 30, 2021	3,570,000	\$0.38	-	-
Granted – October 29, 2021	1,680,000	\$0.40	-	-
Total options	15,730,000	\$0.18	11,820,000	\$0.07
Vested options	11,552,500	\$0.09	10,610,000	\$0.06

The following provides a summary of the stock option plan as at December 31, 2021:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 0.05 - 0.38	15,730,000	7.0	\$ 0.18	11,552,500

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

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 0.05 – 0.13	11,820,000	6.7	\$ 0.07	10,160,000

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 August 30, 2021 and October 29, 2021:

	Aug 30, 2021	Oct 29, 2021
Risk free interest rate (%)	0.83	1.48
Expected life (yrs)	5.0	5.0
Expected volatility (%)	104	103
Dividends	Nil	Nil
Forfeiture rate (%)	5.0	5.0
Weighted average fair value at issuance	\$0.36	\$0.38

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**10. SHARE CAPITAL AND RESERVES (continued)**

(ii) Share-based payments

The Company appointed a strategic and financial adviser in December 2020. Under the terms of the advisory agreement the advisor received a fee of US\$30,000 and, 325,000 common shares on January 31, 2021, and a further 625,000 common shares on December 18, 2021 as its engagement continued with the Company to that date. A share-based payment charge of \$71,344 was recognised on the issue of 325,000 common shares on January 31, 2021 and a share-based payment charge of \$231,103 was recognised to December 18, 2021 in respect of the issue of 625,000 common shares.

The Company granted 4,000,000 Restricted Stock Units on October 29, 2021 to certain Directors. The Restricted Share Units will not vest unless the Company has filed a report in compliance with National Instrument NI 43-101 Standards of Disclosure for Mineral Projects supporting a feasibility study on the Company's Songwe Hill rare earths project in Malawi. Based on an expected filing date in Q2, 2022 the Company has recognised a share-based payment charge of \$407,315 during the year. This charge is calculated on the expectation that all the Restricted Share Units will vest.

c) **Brokers warrants**

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2021:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (yrs.)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
<b>0.324</b>	<b>385,098</b>	<b>0.61</b>	<b>0.324</b>	<b>385,098</b>

d) **Reserves**

**Shares to be issued** – this represents shares for which consideration has been received but are not issued yet.

**Contributed surplus** – this represents the cumulative balance of share-based payment expenses.

**Accumulated Other Comprehensive Income** – this represents gains/losses arising on retranslating the net assets of overseas operations into US Dollars.

**Retained Deficit** – this represents all other net gains/losses and transactions with owners not recognised elsewhere.

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**11. NON-CONTROLLING INTEREST**

On November 1, 2021 the Company received regulatory approval to issue 50,000,000 common shares of the Company in exchange for the all of the non-controlling interest in Lancaster BVI held by Talaxis increasing Mkango's interest to 100%.

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

	<b>Talaxis NCI Ownership</b>	
	<b>November 1, 2021</b>	<b>December 31, 2020</b>
Lancaster BVI	49%	49%
	<b>November 1, 2021</b>	<b>December 31, 2020</b>
Net loss	(5,961,949)	(3,657,046)
<b>Total loss attributable to non-controlling interest</b>	<b>(2,921,355)</b>	<b>(1,791,951)</b>
Comprehensive loss	(5,964,818)	(3,695,745)
<b>Total comprehensive loss attributable to non-controlling interest</b>	<b>(2,922,761)</b>	<b>(1,793,274)</b>
Current assets		2,499,891
Non-current assets		64,536
Current liabilities		(212,120)
Non-current liabilities		(12,348,728)
<b>Net liabilities</b>		<b>(9,996,421)</b>
Cash flows used in operating activities		(4,101,271)
Effect of exchange rate changes on cash		70,711
<b>Net decrease in cash</b>		<b>(4,032,758)</b>

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### 11. NON-CONTROLLING INTEREST (CONTINUED)

#### Maginito

On November 1, 2021 the Company received regulatory approval to issue 4,166,666 common shares of the Company in exchange for the all of the non-controlling interest in Maginito held by Talaxis increasing Mkango's interest to 100%.

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

	Talaxis NCI Ownership	
	November 1, 2021	December 31, 2020
Maginito	24.5%	24.5%
	November 1, 2021	December 31, 2020
Net loss	(37,291)	(90,635)
<b>Total loss attributable to non-controlling interest</b>	<b>(9,136)</b>	<b>(22,206)</b>
Comprehensive loss	(46,313)	(71,132)
<b>Total comprehensive loss attributable to non-controlling interest</b>	<b>(11,347)</b>	<b>(17,428)</b>
Current assets		129,588
Non-current assets		586,863
<b>Net assets</b>		<b>716,451</b>
Cash flows used in operating activities		(109,075)
Cash flows used in investing activities		(641,930)
Effect of exchange rate changes on cash		3,759
<b>Net decrease in cash</b>		<b>(747,246)</b>

#### Movements in NCI

	December 31, 2021	December 31, 2020
<b>Balance brought forward</b>	<b>(4,722,717)</b>	<b>(2,912,015)</b>
Total comprehensive loss attributable to non-controlling interests:		
Lancaster BVI	(2,922,761)	(1,793,274)
Maginito	(6,456)	(17,428)
Acquisition of shares in Lancaster BVI by Mkango	7,821,008	-
Acquisition of shares in Maginito by Mkango	(169,074)	-
<b>Balance carried forward</b>	<b>-</b>	<b>(4,722,717)</b>

#### Acquisition of NCI

Shares issued to Talaxis	17,772,300	-
Transaction expenses settled in shares	177,133	-
Total shares issued	17,949,433	-
Transaction expenses settled in cash	420,243	-
Acquisition of shares in Lancaster BVI by Mkango	7,821,008	-
Acquisition of shares in Maginito by Mkango	(169,074)	-
<b>Total</b>	<b>26,021,610</b>	<b>-</b>

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**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.

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 is measured at level 3. The fair value of this financial instrument was determined using binomial pricing models for American style options. The key input to this model is the volatility rate which was 109% 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 credit to the income statement of \$11,370 and a 10% decrease would result in a charge to the income statement of \$9,999.

The carrying value of 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, 2021 and 2020, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	<b>December 31, 2021</b>	December 31, 2020
Cash:		
Canadian Dollar	<b>87,763</b>	78,559
United States Dollar	<b>82,950</b>	586,954
Pound Sterling	<b>4,229,086</b>	2,602,026
Euro	<b>16,914</b>	288,469
Malawian Kwacha	<b>23,972</b>	18,438
Australian Dollar	<b>6,165</b>	1,350,121
	<b>4,446,850</b>	4,924,567

A 5% reduction in the value of the CAD, Euro, GBP and Australian Dollar in comparison to the US Dollar would cause a total change in net loss of approximately \$217,000 (2020: \$216,000).

**Interest rate risk**

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.



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**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, 2021:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	1,244,438	1,244,438	-
Due to related parties	14,134	14,134	-

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	-

**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 (\$184,508) over two years which have been met. On June 1, 2021 the Phalombe Licence was transferred into 11 retention licences covering a total of 250 sq km. Each retention licence is for a 5 year period from the June 1, 2021 and will be transferred into a mining licence once the Feasibility Study and ESHIA have been finalized.

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 was subsequently renewed for a further 2 years to September 9, 2021. The Company has subsequently been granted 4 retention licences for a period of five years to November 9, 2026.

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 and has been renewed for a period of two years to November 10, 2022. The commitment for exploration expenses with the Government of Malawi under the license is 25,000,000 Kwacha (\$30,692) over three years which had been met by December 31, 2021.

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**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 and the application to renew in respect of a reduced area of 650.17 square kilometres has been made. The commitment for exploration expenses with the Government of Malawi under the license is 50,000,000 Kwacha (\$61,384) over three years which had been met by December 31, 2021.

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,	2021	2020
Net loss before taxes	(9,707,073)	(4,024,656)
Statutory tax rate	27%	27%
Expected tax recovery	(2,620,910)	(1,086,658)
Increase (decrease) in taxes:		
Non – deductible expense - share-based payments	370,210	31,929
Tax rate differential between Canada and foreign jurisdictions (30% in Malawi, 0% in BVI, 19% in UK and Poland)	1,849,639	896,915
Change in deferred tax assets not recognized	401,061	157,814
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,	2021	2020
Evaluation and exploration costs	8,058,428	7,740,774
Loss carry forwards - Canada	4,671,326	3,972,990
Loss carry forwards - UK	71,108	-
Loss carry forwards - Poland	54,790	-
Loss carry forwards - Malawi	4,381,533	4,193,265
Share issue costs	-	10,529
	17,237,185	15,917,558

The tax value of the losses is as follows:

For the year ended December 31,	2021	2020
Evaluation and exploration costs	2,417,528	2,322,232
Loss carry forwards - Canada	1,261,258	1,072,707
Loss carry forwards – UK	13,511	-
Loss carry forwards - Poland	10,410	-
Loss carry forwards - Malawi	1,314,460	1,257,980
Share issue costs	-	2,843
	5,017,167	4,655,762

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**14. TAXES (continued)**

As at December 31, 2021, the Company had \$4,671,326 (2020 –\$3,972,990) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount \$
2028	61,727
2029	25,643
2030	47,064
2031	177,840
2032	341,526
2033	464,875
2034	536,977
2035	504,724
2036	474,517
2037	478,017
2038	638,095
2039	121,597
2040	162,828
2041	635,896
	4,671,326

As at December 31, 2021, the Company had unutilised exploration and evaluation costs of \$8,058,428 (2020 – \$7,740,774) to claim against future taxable income in Canada. These capital losses do not expire.

As at December 31, 2021, the Company had \$4,381,533 (2020 – \$4,193,265), \$54,790 (2020 - \$nil) and \$71,108 (2020 - \$nil) in non-capital losses available to claim against future taxable income in Malawi, UK and Poland respectively. 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 December 31, 2021 was based on the loss attributable to ordinary shareholders of \$6,781,562 (2020: loss \$2,253,628) and a weighted average number of Ordinary Shares outstanding during the period ended December 31, 2021 of 153,119,372 (2020: 133,000,721) calculated as follows:

	2021	2020
Loss attributable to the ordinary shareholders	<b>\$6,781,562</b>	\$2,253,628
Number of Ordinary shares outstanding at beginning of year	<b>133,000,721</b>	133,000,721
Effect of shares issued during the year	<b>20,118,651</b>	-
Weighted average number of Ordinary shares outstanding	<b>153,119,372</b>	133,000,721
Loss per share	<b>0.044</b>	0.017

**16. CAPITAL MANAGEMENT**

The Company's total capital consists of Mkango's shareholders' equity of \$4,004,595, as at December 31, 2021 (December 31, 2020 –\$10,213,006). The operations of the Company for the next 12 months will be funded from funding alternatives currently being reviewed for ongoing and new projects.

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.

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**17. SUBSEQUENT EVENTS**

No subsequent events have been identified.