Condensed Interim Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the three and nine months ended September 30, 2022 and 2021

Unaudited condensed interim consolidated financial statements. In accordance with National Instrument 51-102 released by the Canadian Securities administrators, the Company discloses that its auditors have not reviewed these condensed interim consolidated financial statements for the three and nine months ended September 30, 2022 and 2021.

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

	Notes	As at September 30, 2022	As at December 31, 2021
ASSETS			
Current			
Cash		417,563	4,446,850
Government remittances receivable	5	12,675	11,644
Other receivables		14,887	1,962
Prepaid expenses and accrued income		80,262	84,504
Total current assets		525,387	4,544,960
Intangible assets	6	101,023	-
Property and equipment	7	26,563	40,577
Investment in associate	8	381,904	556,677
Government remittances receivable	5	124,328	120,953
Total assets		1,159,205	5,263,167
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	486,154	1,244,438
Due to related parties	9	25,578	14,134
		511,732	1,258,572
Long term			
Loans and borrowings	11	1,181,490	-
		1,181,490	-
Total liabilities		1,693,222	1,258,572
SHAREHOLDERS' EQUITY			
Share capital	12	38,377,817	38,148,271
Shares to be issued reserve		-	231,103
Contributed surplus		6,464,487	4,536,898
Accumulated other comprehensive income		30,859	122,378
Retained deficit		(45,407,180)	(39,034,055)
Total equity		(534,017)	4,004,595
Total liabilities and shareholders' equity		1,159,205	5,263,167

Approved on behalf of the Board:

William Drummond Dawes, Chief Executive Officer, Director

Shaun Treacy, Audit Committee Chairman, 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 three months ended: **September 30, 2022**	September 30, 2021	For the nine months ended: **September 30, 2022**	September 30, 2021
Expenses					
General and administrative		**849,961**	535,918	**3,850,357**	1,606,607
Mineral project expenditures		**151,987**	1,747,926	**2,224,101**	4,245,092
		1,001,948	2,283,844	**6,074,458**	5,851,699
Other items					
Interest income		**(5)**	(3,530)	**(25)**	(10,509)
Share of associated company losses/(profits)		**36,347**	25,566	**62,715**	(15,351)
Fair value losses		**5,749**	9,008	**19,067**	25,554
Foreign exchange (gain) loss		**30,819**	189,661	**216,910**	184,325
Net loss before tax		**1,074,858**	2,504,549	**6,373,125**	6,035,718
Income tax		**-**	-	**-**	-
Net loss after tax		**1,074,858**	2,504,549	**6,373,125**	6,035,718
Net loss attributable to					
Common shareholders		**1,074,858**	1,471,189	**6,373,125**	3,462,765
Non-controlling interest		**-**	1,033,360	**-**	2,572,953
Attributable net loss		**1,074,858**	2,504,549	**6,373,125**	6,035,718
Other comprehensive loss					
Items that may be reclassified subsequently to net loss					
Exchange difference on translating foreign operations		**(147,903)**	22,639	**(91,519)**	18,266
Total comprehensive loss		**926,955**	2,527,188	**6,281,607**	6,053,984
Total comprehensive loss attributable to					
Common shareholders		**926,955**	1,491,023	**6,281,607**	3,476,546
Non-controlling interest		**-**	1,036,165	**-**	2,577,438
Attributable comprehensive loss		**926,955**	2,527,188	**6,281,607**	6,053,984
Net loss per share – basic and diluted	15	**(0.005)**	(0.010)	**(0.03)**	(0.025)

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the nine months ended: September 30, 2022	September 30, 2021
Cash flow used by operating activities			
Net (loss) for the period		**(6,373,125)**	(6,035,718)
Items not affecting cash:			
Share based payments	12(b)	**1,927,589**	193,827
Share of associated company losses/(profits)	8	**62,715**	(15,351)
Fair value losses	8	**19,067**	25,554
Depreciation	7	**15,979**	23,397
Unrealized foreign exchange loss/(profit)		**1,471**	195,659
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		**(13,088)**	(42,095)
Due to related parties		**11,444**	10,247
Accounts payable and accrued liabilities		**(758,284)**	917,871
Cash flow used by operating activities		**(5,106,232)**	(4,726,609)
Cash flow used by investing activities			
Acquisition of intangible assets	6	**(101,023)**	**-**
Acquisition of property, plant and equipment	7	**(1,965)**	(3,307)
Cash flow used by investing activities		**(102,988)**	(3,307)
Cash flow generated by financing activities			
Proceeds from CoTec advance note	11	**1,181,490**	-
Issue of shares		-	6,130,702
Share subscription		-	554,600
Share issue expenses		**(1,557)**	(426,483)
Cash flow generated by financing activities		**1,179,933**	6,258,819
Effect of exchange rate changes on cash		-	(205,158)
Change in cash		**(4,029,287)**	1,323,745
Cash at the beginning of the period		**4,446,850**	4,924,567
Cash at the end of the period		**417,563**	6,248,312

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, 2020		12,563,211	346,983	3,495,724	120,897	(6,313,809)	(4,722,717)	5,490,289
Loss for the period		-	-	-	-	(3,462,765)	(2,577,438)	(6,040,203)
Other comprehensive income:								
Foreign exchange (losses)		-	-	-	(13,781)	-	-	(13,781)
Total comprehensive (loss)		-	-	-	(13,781)	(3,462,765)	(2,577,438)	(6,053,984)
Transactions with owners:								
Issue of shares	12(a)	6,549,029	207,617	(71,344)	-	-	-	6,685,302
Share issue costs		(464,502)	-	38,109				(426,483)
Share based payments	12(b)	-	-	193,827	-	-	-	193,827
		6,084,527	207,617	160,502	-	-	-	6,452,646
Balance at September 30, 2021		18,647,738	554,600	3,656,226	107,116	(9,776,574)	(7,300,155)	5,888,951
Balance at December 31, 2021		38,148,271	231,103	4,536,898	122,378	(39,034,055)	-	4,004,595
Loss for the period		-	-	-	-	(6,373,125)	-	(6,373,125)
Other comprehensive income:								
Foreign exchange (losses)		-	-	-	(91,519)	-	-	(91,519)
Total comprehensive loss		-	-	-	(91,519)	(6,373,125)	-	(6,464,644)
Issue of shares	12(a)	231,103	(231,103)	-	-	-	-	-
Share issue expenses	12(a)	(1,557)	-	-	-	-	-	(1,557)
Share based payments	12(b)	-	-	1,927,589	-	-	-	1,927,589
		229,546	(231,103)	1,927,589	-	-	-	1,926,032
Balance at September 30, 2022		**38,377,817**	**-**	**6,464,487**	**30,859**	**(45,407,180)**	**-**	**(534,017)**

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 four 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. 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 November 29, 2022.

2. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company's consolidated cash balance at September 30, 2022 was $417,563 and working capital was $13,655. The Company 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 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.

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, 2022.

(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	100% (2021: 100%)
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	100% (2021: 100%)
Maginito Limited ("Maginito")	Pound Sterling	100% (2021: 100%)
MKA Exploration Limited ("MKA Exploration")	Malawi Kwacha	100% (2021: 100%)
MKA Exploration Limited ("MKA Exploration Malawi")	Malawi Kwacha	100% (2021: 100%)
Mkango Rare Earths UK Limited ('Mkango UK')	Pound Sterling	100% (2021: 100%)
Mkango Polska Sp. z o.o. ('Mkango Polska')	Euros	100% (2021: 100%)

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) 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) 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. On 5 July 2022, the definitive feasibility study for the Songwe Hill Rare Earth Project in Malawi was published. Management have determined that this is the date at which the project can be classified as a development asset. Expenditure on this project from this date has been capitalised to intangible assets.

(ii) Investment in associate

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 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 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.

(ii) Measurement of the fair value of options 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 historical 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.

(e) Accounting standards, amendments and interpretations effective in 2022

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 2022 were each effective as of 1 January 2022:

Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16)
Onerous Contracts- Cost of Fulfilling a Contract (Amendments to IAS 37)
Annual Improvements to IFRS Standards 2018-2020
Reference to Conceptual Framework (Amendments to IFRS 3)

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

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, as detailed below. None of these are expected to have a significant effect on the Group.

	Effective Date
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

4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2021. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2021.

5. GOVERNMENT REMITTANCES RECEIVABLE

	September 30, 2022	December 31, 2021
Recoverable within one year	**12,675**	11,644
Recoverable after one year	**124,328**	120,953
	137,003	132,597

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

6. INTANGIBLE ASSETS

	Exploration & evaluation assets
Cost	
Balance at December 31, 2021	-
Additions	101,023
Balance at September 30, 2022	**101,023**

7. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at December 31, 2021	289	50,350	55,982	80,011	186,632
Additions	-	-	1,965	-	1,965
Balance at September 30, 2022	**289**	**50,350**	**57,947**	**80,011**	**188,597**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation					
Balance at December 31, 2021	289	22,657	48,894	74,215	146,055
Depreciation	-	8,392	1,792	5,796	15,979
Balance at September 30, 2022	**289**	**31,049**	**50,686**	**80,011**	**162,034**
Net Book Value					
December 31, 2021	-	27,693	7,088	5,796	40,577
September 30, 2022	**-**	**19,301**	**7,261**	**-**	**26,563**

8. 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 had 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 to take its interest to 41.6%.

	September 30, 2022	December 31, 2021
Cost		
Opening balance	556,677	586,863
Share of post-acquisition losses	(62,715)	(7,620)
Fair value losses	(19,067)	(17,116)
Foreign exchange difference	(92,991)	(5,450)
Closing balance	**381,904**	**556,677**

	September 30, 2022	December 31, 2021
Cost or valuation		
Shares	432,861	570,127
Share of post-acquisition losses	(62,715)	(49,899)
Options	11,758	36,449
Total investment	**381,904**	**556,677**

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

	September 30, 2022	December 31, 2021
Assets and liabilities		
Non-current assets	187,896	340,049
Current assets	131,184	206,199
Current liabilities	(12,524)	(42,836)
Net assets	306,556	503,412
Company's share of net assets	127,527	209,419

Results		
Revenue	-	-
Losses	62,715	27,448

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

9. RELATED PARTY TRANSACTIONS AND BALANCES

Key management compensation was as follows:

	September 30, 2022	September 30, 2021
Salaries/Consulting fees	310,160	342,173
Director fees	103,292	82,350
Share-based payments	1,834,394	18,744
Total key management compensation	2,247,846	443,267

The amounts due to related parties were as follows:

	September 30, 2022	September 30, 2021
Due to/(from) related parties with common directors	51	(2,286)
Due to key management and directors	25,527	46,705
Total due to related parties	25,578	44,419

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
Accounts payable	**225,879**	1,011,257
Other payables	**141,852**	28,083
Accrued liabilities	**118,423**	205,098
	486,154	1,244,438

11. CONVERTIBLE LOAN NOTE

	September 30, 2022	December 31, 2021
Opening balance	**-**	**-**
Received during the period	1,181,490	-
Closing balance	**1,181,490**	**-**

On June 29, 2022, Mkango received an Advance Note for £500,000 (US$606,602) as part of the CoTec Holdings Corp. (“CoTec”). On September 8, 2022, Mkango received a further Advance Note for £500,000 (US$574 888) as part of the CoTec funding.

Mkango has signed a non-binding term sheet with CoTec, an ESG-focused company investing in innovative technologies, led by Julian Treger and Braam Jonker, in relation to investments by CoTec into Mkango and Mkango’s subsidiary, Maginito Limited (“Maginito”), and collaboration in downstream rare earth technologies (the “Transactions”). The Transactions are expected to include the following key components:

- CoTec will invest £2 million into Mkango by way of a two-year, unsecured convertible note (**“Mkango Note**”) with 5% interest, convertible into Mkango shares at 27p each, providing Mkango with additional working capital as it advances financing discussions for the Songwe Hill rare earths project (“**Songwe Hill**”) in Malawi and the Pulawy separation plant project in Poland.
- CoTec will also invest £1.5 million into Maginito, equating to a 10% equity stake in Maginito for the purposes of strategic investments in downstream rare earth technologies and working capital.
- Restructuring resulting in Mkango’s wholly owned subsidiary, Mkango Rare Earths UK Limited, (“Mkango UK”) becoming a wholly owned subsidiary of Maginito.
- In consideration of a six-month exclusivity period, CoTec advanced £500,000 on June 29, 2022 and a further £500,000 on September 8, 2022 offsetable against and carrying largely the same terms as the Mkango Note.
- Mkango and CoTec will enter into a co-operation agreement regarding future investments in rare earth processing technology opportunities in the United States.
- The Transactions are subject to various conditions, including definitive documentation, restructuring in relation to Mkango UK and TSX Venture Exchange approval. There can be no certainty that any agreement will be reached nor as to the final terms of the proposed investment.

12. 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, 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
Closing balance December 31, 2021		**214,581,548**	**38,148,271**
Issued in exchange for services	(vii)	625,000	229,546
Closing balance September 30, 2022		**215,206,548**	**38,377,817**

(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.

(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.

(vii) On March 10, 2022, 625,000 common shares of the Company were issued under the terms of the advisory agreement with Bacchus Capital Advisers Limited and an amount of $231,103 was transferred from the shares to be issued reserve to share capital. Share issue costs of $1,557 were incurred in connection with the issue and debited to share capital.

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 respect of stock options in the consolidated statements of comprehensive loss for the nine months ended September 30, 2022 is $758,389 (September 30, 2021 – $193,827). 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:

	September 30, 2022		*December 31, 2021*	
	Options	***Weighted average exercise price***	*Options*	*Weighted average exercise price*
Opening	**15,850,000**	**$0.18**	11,820,000	$0.06
Exercised	**-**	**-**	(1,340,000)	$0.07
Granted – August 30, 2021	**-**	**-**	3,570,000	$0.08
Granted – October 29, 2021	**-**	**-**	1,800,000	$0.40
Granted – September 8, 2022	**350,000**	**$0.14**		
Total options	**16,200,000**	**$0.17**	15,850,000	$0.18
Vested options	**15,045,000**	**$0.16**	11,552,500	$0.09

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 September 8, 2022.

	September 8, 2022
Risk-free interest rate (%)	1.48%
Expected life (years)	2.5
Expected volatility (%)	103%
Dividends	Nil
Forfeiture rate (%)	5%
Fair value at grant date ($)	0.10

The following provides a summary of the stock option plan as at September 30, 2022:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 - 0.38	**16,200,000**	**5.73**	**$ 0.17**	**15,045,000**

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

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 – 0.38	**15,850,000**	**7.0**	**$ 0.18**	**11,552,500**

(ii) Restricted Share Units

At September 30, 2022 the Company had 4,000,000 Restricted Stock Units outstanding. The Restricted Share Units have vested now that 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. The Company has recognised a share-based payment charge of $1,169,200 (September 30, 2021 - $nil) during the period.

(iii) Broker warrants

The following provides a summary of the Company's outstanding broker warrants as at September 30, 2022:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*
0.34	**33,333**	**0.08**	**0.34**

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2022:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*
0.32	**385,098**	**0.61**	**0.32**

c) **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.

13. 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 78% 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 $7,957 and a 10% decrease would result in a charge to the income statement of $6,850. 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 September 30, 2022 and December 31, 2021, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	September 30, 2022	December 31, 2021
Cash:		
Canadian Dollar	**2,629**	87,763
United States Dollar	**72,217**	82,950
Pound Sterling	**232,337**	4,229,086
Euro	**107,079**	16,914
Malawian Kwacha	**3,009**	23,972
Australian Dollar	**292**	6,165
	417,563	4,446,850

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 $17,300 (December 31, 2021: $217,000).

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.

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 September 30, 2022:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	486,154	486,154	-
Due to related parties	25,578	25,578	-

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	-

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.

14. COMMITMENTS

The Company was first granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Government of Malawi on an initial three-year basis. The license was subsequently renewed every two years and was renewed for a third time on January 21, 2019. 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 is in the process of being transferred into a mining licence now that the Definitive Feasibility Study and ESHIA have been finalized and lodged with the Government of Malawi.

On September 10, 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in Thambani, Mwanza District, Malawi. The license was issued by the Government of Malawi on an initial three-year basis and was subsequently renewed from September 10, 2015 for additional two year periods. The Company has subsequently been granted 4 retention licences for a period of five years from November 9, 2021.

On November 10, 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment 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 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 September 30, 2022. The license is currently being renewed for a period of two years from November 10, 2022.

On May 13, 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment 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 is in good standing and has been renewed for a further two years from May 13, 2022.

The Company continues 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.

15. LOSS PER SHARE

The calculation of basic earnings per share at September 30, 2022 was based on the loss attributable to ordinary shareholders of $6,373,125 (September 30, 2021: loss $3,462,765) and a weighted average number of Ordinary Shares outstanding during the period ended September 30, 2022 of 215,048,581 (September 30, 2021: 139,103,986) calculated as follows:

	September 30, 2022	September 30, 2021
Loss attributable to the ordinary shareholders	**$6,373,125**	$3,462,765
Number of Ordinary shares outstanding at beginning of year	**214,581,548**	133,000,721
Effect of shares issued during the period	**467,033**	6,103,265
Weighted average number of Ordinary shares outstanding	**215,048,581**	139,103,986
Loss per share	**0.030**	0.025

16. CAPITAL MANAGEMENT

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 has no externally imposed capital requirements.

17. SUBSEQUENT EVENTS

On October 28, 2022, Mkango received an Advance Note for £222,500 (US$250,000) as part of the CoTec funding. The terms of the Advance are consistent with the terms of the advance that CoTec provided to Mkango in September 2022.

On November 23, 2022, HyProMag GmbH was awarded a €3.7 million grant for a new project to further develop the local knowledge base, infrastructure and recycled NdFeB production capacity to underpin its transition to commercial production in Germany. The total cost of the project is expected to be €6.1 million, of which approximately 60% will be funded by the grants, on the basis that for each €1 spent on the Project by HyProMag GmbH, a further €1.50 contribution can be claimed from the grants.