



Consolidated Interim Financial Statements of

**MKANGO RESOURCES LTD.**

For the three and six months ended June 30, 2017 and 2016

**Unaudited consolidated interim 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 consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016.**

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

As at	Notes	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$498,352	\$388,678
Accounts receivable		1,935	2,537
Subscription receivable		-	555,120
Prepaid expenses		15,181	5,584
Total currents assets		515,468	951,919
Property and equipment	5	22,934	28,511
Total assets		538,402	980,430
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		77,829	113,314
Due to related party	6	16,908	28,926
Grant received in advance	7	27,352	27,352
Total current liabilities		122,089	169,592
Long term			
Warrants - derivative financial instruments	8(b)	1,271,560	1,009,367
Due to related party	6	326,974	243,097
Total liabilities		1,720,623	1,422,056
<b>EQUITY (DEFICIENCY)</b>			
Share capital	8(a)	8,001,494	8,014,055
Contributed surplus		3,380,104	3,272,308
Accumulated other comprehensive loss		61,270	65,292
Deficit		(12,625,089)	(11,793,281)
Total deficit		(1,182,221)	(441,626)
Total liabilities and deficit		\$538,402	\$980,430
Going concern	2		
Commitments	11		

Approved on behalf of the Board:

(signed) "*William Dawes*"

William Dawes, CEO and Director

(signed) "*David Berg*"

David Berg, Director

Refer to accompanying notes to the consolidated interim financial statements.

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

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2017	2016	2017	2016
<b>Expenses</b>					
General and administrative		\$118,747	\$25,587	\$280,322	\$201,433
Mineral exploration expenditures		88,708	31,003	189,116	58,682
Depreciation	5	2,789	2,640	5,577	5,280
Share-based payments	8(c)	54,539	165,005	107,818	173,703
		264,783	224,235	582,833	439,098
<b>Other items</b>					
Interest income		(1)	-	(3)	(2)
Accretion		4,361	-	41,750	-
Unrealized loss on revaluation of warrants	8(b)	118,324	275,861	303,492	358,993
Gain on deferral of related party consulting fees		11,502	-	(19,480)	-
Foreign exchange (gain) loss		(136,074)	199,117	(76,784)	195,780
<b>Net loss</b>		<b>\$(262,895)</b>	<b>\$(699,213)</b>	<b>\$(831,808)</b>	<b>\$(993,869)</b>
<b>Other comprehensive loss</b>					
Items that may be reclassified subsequently to net income					
Exchange difference on translating foreign operations		(93,578)	(95,039)	61,268	93,505
<b>Total comprehensive loss</b>		<b>\$(356,473)</b>	<b>\$(794,252)</b>	<b>\$(770,540)</b>	<b>\$(900,364)</b>
<b>Net loss per share - basic and diluted</b>					
		<b>\$(0.003)</b>	<b>\$(0.015)</b>	<b>\$(0.010)</b>	<b>\$(0.020)</b>
<b>Weighted average shares outstanding basic and diluted</b>					
		83,912,472	45,468,935	83,912,472	49,957,910

Refer to accompanying notes to the consolidated interim financial statements.

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

		For the six months ended June 30,	
	- Notes	2017	2016
<b>Cash flow used by operating activities</b>			
Net income (loss) for the period		\$(831,808)	\$(993,869)
Items not affecting cash:			
Share based payments	8(c)	107,818	173,703
Unrealized loss on revaluation of warrants	8(b)	303,492	358,993
Depreciation	5	5,577	5,280
Unrealized foreign exchange (gain) loss		(83,222)	75,328
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		(8,995)	(23,521)
Accounts payable, accrued liabilities and due to related party		36,374	218,056
<b>Cash flow used by operating activities</b>		<b>(470,765)</b>	<b>(186,030)</b>
<b>Cash flow provided by financing activities</b>			
Issue of common shares, net of share issue costs		535,315	1,000,260
<b>Cash flow provided by investing activities</b>		<b>535,315</b>	<b>1,000,260</b>
Effect of exchange rate changes on cash		45,124	98,848
<b>Change in cash and cash equivalents</b>		<b>109,674</b>	<b>913,078</b>
Cash and cash equivalents at the beginning of the period		388,678	208,161
<b>Cash and cash equivalents at the end of the period</b>		<b>\$498,352</b>	<b>\$1,121,239</b>

Refer to accompanying notes to the consolidated interim financial statements.

**MKANGO RESOURCES LTD.**  
**Consolidated Interim Statements of Changes in Deficit**  
**Reported in US dollars**

	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at December 31, 2015	\$7,399,685	\$2,739,847	\$65,029	\$(10,936,373)	\$(731,812)
Common shares issued	1,468,019	-	-	-	1,468,019
Share issue costs	(623,008)	-	-	-	(623,008)
Common shares issued - agent fee	16,158	(16,158)	-	-	-
Warrant valuation	(1,642,567)	-	-	-	(1,642,567)
Share based payments	-	173,703	-	-	173,703
Total comprehensive income	-	-	93,505	(993,869)	(900,364)
Balance at June 30, 2016	\$6,618,287	\$2,897,392	\$158,534	\$(11,930,242)	\$(2,256,029)
Common shares issued	505,301	-	-	-	505,301
Share issue costs	346,120	-	-	-	346,120
Warrant valuation	550,983	-	-	-	550,983
Warrants issued - agent fee	(9,387)	9,387	-	-	-
Share based payments	-	321,007	-	-	321,007
Common shares issued - agent fee	2,751	44,522	-	-	47,273
Total comprehensive income	-	-	(93,242)	136,961	43,719
Balance at December 31, 2016	\$8,014,055	\$3,272,308	\$65,292	\$(11,793,281)	\$(441,626)
Share based payments	-	107,818	-	-	107,818
Share issue costs	(12,561)	-	-	-	(12,561)
Total comprehensive income	-	(22)	(4,022)	(831,808)	(835,852)
Balance at June 30, 2017	\$8,001,494	\$3,380,104	\$61,270	\$(12,625,089)	\$(1,182,221)

Refer to accompanying notes to the consolidated interim financial statements.

# **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

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## **1. GENERAL INFORMATION**

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

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. Mkango’s head office is located at 706 27 Avenue NW, Calgary, Alberta Canada, T2M 2J3.

Lancaster BVI was incorporated August 3, 2007 by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands (“BVI”) Companies Act. Lancaster BVIs registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110. Lancaster BVI is a wholly owned subsidiary of Mkango.

On May 19, 2011, a third entity, Lancaster Exploration Limited (“Lancaster Malawi”), was incorporated under the laws of Blantyre, Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI.

Mkango and its wholly owned subsidiaries are collectively referred to as the “Company” in these consolidated interim financial statements.

The consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on August 29, 2017.

## **2. GOING CONCERN**

These consolidated interim 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 has a working capital surplus of \$393,379 (December 31, 2016 \$782,327), negative cash flows from operating activities as is normally the case for a mineral exploration company and has a deficit of \$12,625,089 (December 31, 2016 - \$11,793,281). In addition, the Company has future spending commitments with the Government of Malawi to keep its exploration licences in good standing. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi (Note 10). As at June 30, 2017, the licences are in good standing with the Government of Malawi. These factors indicate material uncertainties, which may cast significant doubt on the Company’s ability to continue as a going concern.

The operations of the Company for the next 12 months are currently being funded by the net proceeds of an equity placement completed upon listing on the AIM market of the London Stock Exchange (“AIM”) on June 15, 2016, and a second placement, which closed on December 30, 2016 (Note 8).

The Company’s strategy is to further advance the projects via research collaborations, marketing and off-take agreements, joint ventures, financial and strategic partnerships.

Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated interim 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 interim 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, 2017.

### **(b) Basis of presentation and measurement**

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

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

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

#### **(c) Functional and presentation currency**

The consolidated interim financial statements are presented in US dollars, which is the functional currency of Mkango and its Lancaster BVI subsidiary. The functional currency of the Lancaster Malawi subsidiary is the Kwacha.

#### **(d) Principles of consolidation**

The consolidated interim financial statements of the Company include the accounts of the Company and its two wholly owned subsidiaries. All intercompany balances and transactions are eliminated upon consolidation.

#### **(e) Use of estimates and judgments**

The preparation of the consolidated interim financial statements in conformity with IFRS 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 period in which the estimates are revised and in any future periods affected.

Key areas of judgement 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 statement of comprehensive (loss) income. The decision to start capitalization of expenditure to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As at June 30, 2017, management has determined that the Company has not yet reached the development and production stage.

##### **(ii) Functional currency**

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of each entity if there is a change in events and conditions, which determine the primary economic environment.

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 share-based payments and warrant valuation (Note 8(b) (c))**

The Company uses an option-pricing model to determine the fair value of share-based payments and warrants. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates 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 grant.

##### **(ii) Determination of fair values (Note 9)**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses a discount rate to determine the fair value of deferred consulting fees on initial recognition. The discount rate is based on an estimated market rate for the Company to obtain similar unsecured financing from a third-party lender.

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

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

#### (iii) Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### **(f) New IFRS pronouncements not yet implemented**

The following IFRS pronouncements have been issued by the IASB as at June 30, 2017 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations and is currently assessing the impact of these new or amended standards and interpretations. Certain other new 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 interim financial statements.

##### (i) IFRS 9 financial instruments (New and Amendment)

IFRS 9 addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

##### (ii) IFRS 15 revenue from contracts with customers (New)

IFRS 15 replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

##### (iii) IFRS 16 leases (New)

IFRS 16 was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the year beginning January 1, 2019 and has not yet considered the potential impact of the adoption of IFRS 16.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2016.



## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### 5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2015	\$ 42,412	\$ (5,421)	\$ 36,991
Additions	2,377	-	2,377
Depreciation	-	(10,857)	(10,857)
Balance at December 31, 2016	\$ 44,789	\$ (16,278)	\$ 28,511
Depreciation	-	(5,577)	(5,577)
Balance at June 30, 2017	\$ 44,789	\$ (21,855)	\$ 22,934

### 6. RELATED PARTY TRANSACTIONS AND BALANCES

- a) Leo Mining Exploration Ltd. (“Leo Mining”) is considered related by virtue of common directors and officers who have an ownership in and exercise significant influence over both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services, which may be provided and the costs associated with such services. Generally the Company repays the disbursements made by Leo Mining on its behalf. During the six months ended June 30, 2017, the Company had incurred costs of \$19,140 (2016 - \$12,745) for administrative services. As of June 30, 2017 the Company has an outstanding payable to Leo Mining in the amount of \$15,332 (2016 – \$31,050). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however this has been waived since 2013.
- b) Digby Wells Environmental (“Digby”), by virtue of a common director, is considered a related party. During the six months ended June 30, 2017, the Company has incurred costs of nil (2016 – \$3,243) for environmental services. As of June 30, 2017, there was no outstanding payable to Digby (2016 – \$6,039).
- c) The Company incurred costs of \$135,808 (2016 – \$135,911) for key management and director fees and related costs for the six months ended June 30, 2017. Included in current liabilities due to related parties at June 30, 2017 was \$1,576 (2016 - \$42,520). The current liabilities due to related parties are unsecured, due on demand and non-interest bearing.
- d) On March 6, 2016, the Board of Directors resolved that each director will be entitled to a payment of £1,000 per meeting, only payable upon a change of control of the Company. No amount has been accrued in the consolidated interim financial statements, as the amounts are contingent liabilities, payable only upon a change of control of the Company.
- e) On May 12, 2016, the Company entered into new consulting agreements (the “Agreement”) with its CEO and President (the “Executive Directors”) whereby a total of £145,618 (\$210,435), comprising deferred consulting fees payable to the Executive Directors accrued since March 2015, will only become payable on the earlier of, a change of control, termination of the Agreement, or May 12, 2018. In terms of consulting fees that are unpaid going forward, a total of £182,000 (\$237,091), has been accrued as of June 30, 2017, but shall not be payable until the earlier of (a) a Change of Control; (b) any termination of the agreement; (c) May 12, 2018; or (d) such time that funds are reasonably available. Consulting fees of, £14,000 (\$17,570) will continue to accrue monthly under the Agreement. The Company recorded a gain on deferral of related party consulting fees at the time of initial deferral and upon deferral of each monthly amount. Accretion is recorded at an effective interest rate of 20% up to the estimated maturity date, May 12, 2018, of the consulting fees payable under the Agreement. The following table provides a reconciliation of amounts reflected in the consolidated interim financial statements for the six months ended June 30, 2017:

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### **6. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	June 30, 2017	December 31, 2016
Initial deferral of consulting fees	\$ 210,435	\$ 210,435
Consulting fees	216,649	145,894
Gain on deferral of consulting fees	(127,772)	(108,292)
Accretion	65,273	23,523
Foreign exchange gain	(37,611)	(28,463)
Balance	\$ 326,974	\$ 243,097

### **7. GRANT RECEIVED IN ADVANCE**

Grant received in advance is comprised of grant funds, which have been received but not yet spent. The Company (through its wholly owned subsidiary, Lancaster BVI) is the recipient of a grant from the HiTech AlkCarb research program (the "Grant Program") led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation. The Company will receive up to €50,000 (\$185,040). During 2016, the Company received an initial advance of €42,611 (\$47,992). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data ("Qualifying Expenditures") will qualify for use of the grant funding. As of June 30, 2017, the Company has incurred \$20,640 in Qualifying Expenditures reducing the grant received in advance to \$27,352.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### 8. 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, in its discretion, declares from available funds.

On June 14, 2016, Company completed a share consolidation of its common shares on the basis of one post-consolidated common share for every three pre-consolidated common shares. Unless otherwise noted, all references herein to number of shares, warrants or options; price per share, warrant or option; or weighted average shares, options or warrants outstanding have been adjusted to reflect the share consolidation on a retroactive basis.

	Ref	Number	Amount
Closing balance December 31, 2014		24,432,319	\$7,173,622
Brokered offering - July 31, 2015	(i)	10,000,000	578,516
Warrants valuation		-	(318,464)
Agent warrants		-	(52,708)
Agent shares		560,000	32,372
Brokered offering - October 20, 2015	(ii)	5,000,000	285,308
Warrants valuation		-	(165,331)
Agent warrants		-	(23,330)
Agent shares		426,666	24,527
Share issue costs	(iii)	-	(134,827)
Closing balance December 31, 2015		40,418,985	\$7,399,685
Brokered offering - June 15, 2016	(iv)	30,303,030	1,418,200
Warrants valuation		-	(1,091,584)
Advisory shares	(v)	333,333	18,909
Brokered offering - December 30, 2016	(vi)	12,857,124	555,120
Advisory warrants		-	(9,387)
Share issue costs	(vii)	-	(276,888)
Closing balance December 31, 2016		83,912,472	\$8,014,055
Reversal of yearend accruals		-	(12,561)
Closing balance June 30, 2017		83,912,472	\$8,001,494

- (i) On July 31, 2015, the Company issued 10,000,000 units at C\$0.075 per unit pursuant to the offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C\$750,000 (US \$578,516) gross proceeds of offering was allocated between common shares C\$334,500 (US\$260,052) and warrants C\$415,500 (US \$318,464) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.15 until July 31, 2018. The Corporation issued to the Agents 560,000 Units, consisting of 1 common share and one-half common share purchase warrant of Mkango, valued at US \$32,372 and 606,667 warrants valued at US \$52,708. Each whole warrant entitles the holder to acquire one common share for C\$0.15 until July 31, 2016.
- (ii) On October 20, 2015, the Company issued 5,000,000 units at C\$0.075 per unit pursuant to the offering. Each Unit consisted of one common share and one-half common share purchase warrant of Mkango. The C\$375,000 (US \$285,308) gross proceeds of the offering was allocated between common shares C\$160,500 (US\$119,977)

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

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### **8. SHARE CAPITAL (continued)**

and warrants C\$214,500 (US \$165,331) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one Common Share for C\$0.15 until October 19, 2018. The Corporation issued to the Agents 93,333 Units, consisting of one common share and one-half common share purchase warrant of Mkango, and 333,333 common shares valued at US \$24,527 and 326,667 warrants valued at US \$23,330. Each whole warrant entitles the holder to acquire one common share for C\$0.15 until October 19, 2016.

- (iii) Share issue costs of US \$134,827 were paid for agent and legal services and regulatory exchange filing fees.
- (iv) On June 15, 2016, in conjunction with the admission to AIM, the Company issued 30,303,030 units at 3.3 pence per unit pursuant to the offering. Each Unit consisted of one common share and one common share purchase warrant of Mkango. The £1,000,000 (\$1,418,200) gross proceeds of the offering were allocated between common shares \$326,616 and warrants \$1,091,584 based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one common share at a price of 6.6 pence until June 15, 2019.
- (v) On June 15, 2016, the Company issued 333,333 common shares valued at \$18,909 to a corporate finance advisory firm (the "Advisor") in exchange for services provided in connection with the admission to AIM. The Company is required to issue an additional 666,666 common shares to the Advisor on June 15, 2017 or, in the event that the value of 666,666 shares does not exceed an equivalent value of £20,000 (\$28,364), then the number of common shares equivalent to such an amount. The Company recorded an expense of \$47,273 for the services provided which is included as a component of AIM listing expenses, share capital and contributed surplus.
- (vi) On December 30, 2016, the Company issued 12,857,124 common shares at 3.5 pence per common share for gross proceeds of £449,999 (\$555,120). The Company issued to the Agents 567,856 non-transferable finders' warrants valued at \$9,387. Each warrant entitles the holder to acquire one common share for 3.5 pence until December 30, 2017. As at December 31, 2016, gross proceeds of \$555,120 is recorded as subscriptions receivable and was collected after year end.
- (vii) Share issue costs of \$276,888 were paid for agent and legal services and regulatory exchange filing fees. The Company incurred a total of \$451,596 in connection with its listing on the AIM.

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### 8. SHARE CAPITAL (continued)

#### b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Canadian dollars or United Kingdom Pounds and the functional currency of the Company is the US dollar. Warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. Warrants issued do not include warrants issued to brokers and agents since they fall under the scope of IFRS 2, "share-based payments".

	Weighted Average Exercise Price (CDN\$)	Weighted Average Exercise Price (UK£)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2014	\$ 0.60	£ -	2.00	7,569,284	\$ 1,614,013
Warrants issued – July 31, 2015	0.15	-	1.33	5,000,000	318,464
Warrants issued – October 20, 2015	0.15	-	1.55	2,500,000	165,331
Foreign exchange effect	-	-	-	-	(197,208)
Fair value change at December 31, 2015	-	-	-	-	(1,290,900)
Balance at December 31, 2015	\$ 0.39	£ -	1.70	15,069,284	\$ 609,700
Warrants issued – June 15, 2016	-	0.066	2.21	30,303,030	1,091,584
Foreign exchange effect	-	-	-	-	(109,378)
Fair value change at December 31, 2016	-	-	-	-	(582,539)
Balance at December 31, 2016	\$ 0.39	£ 0.066	2.04	45,372,314	\$ 1,009,367
Foreign exchange effect	-	-	-	-	(41,299)
Fair value change at June 30, 2017	-	-	-	-	303,492
Balance at June 30, 2017	\$ 0.39	£ 0.066	2.04	45,372,314	\$ 1,271,560

The fair value of each warrant issued is determined at each reporting period using the Black-Scholes pricing model. The following assumptions were used in arriving at the fair value estimate for the warrants:

	June 15, 2016	December 31, 2016 <i>Revaluation</i>	June 30, 2017 <i>Revaluation</i>
Risk free interest rate	0.55%	0.87%	1.04%
Expected volatility	122%	129%	138%
Share price	£0.0400	£0.0343	£0.0461
Foreign exchange rate	1.4182	1.2336	1.3027
Remaining life	3.00	2.45	1.96

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### 8. SHARE CAPITAL (continued)

	October 20, 2015	December 31, 2015	December 31, 2016	June 30, 2017
		<i>Revaluation</i>	<i>Revaluation</i>	<i>Revaluation</i>
Risk free interest rate	0.50%	0.50 %	0.78 %	0.89 %
Expected volatility	241%	254%	138%	141%
Share price	CND\$0.06	CND\$0.06	CND\$0.06	CND\$0.06
Foreign exchange rate	1.2974	1.3840	1.3427	1.2977
Remaining life	3.25	2.80	1.80	1.33

  

	July 31, 2015	December 31, 2015	December 31, 2016	June 30, 2017
		<i>Revaluation</i>	<i>Revaluation</i>	<i>Revaluation</i>
Risk free interest rate	0.50%	0.50 %	0.78 %	0.89 %
Expected volatility	217%	261%	145%	141%
Share price	CND\$0.06	CND\$0.06	CND\$0.06	CND\$0.06
Foreign exchange rate	1.3047	1.3840	1.3427	1.2977
Remaining life	3.23	2.58	1.58	1.08

  

	March 24, 2014	April 3, 2014	December 31, 2015	December 31, 2016	June 30, 2017
			<i>Revaluation</i>	<i>Revaluation</i>	<i>Revaluation</i>
Risk free interest rate	1.69%	1.67%	0.50%	0.78%	1.10%
Expected volatility	144%	143%	243%	138%	138%
Share price	CND\$0.33	CND\$0.33	CND\$0.06	CND\$0.06	CND\$0.06
Foreign exchange rate	1.1217	1.1035	1.3840	1.3427	1.2977
Remaining life	5.00	5.00	3.25	2.25	1.73

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

### 8. SHARE CAPITAL (continued)

#### c) Share-based payments

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 interim statements of comprehensive loss for the six months ended June 30, 2017 was \$107,818 (2016 - \$173,703). The corresponding amount has been recognized in contributed surplus. The options vest over a term of 24 months.

The following tables provide a summary of the status of the Company’s stock option plan:

#### As at June 30, 2017:

Grant date	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price (CND\$)	Remaining contractual life (years)
Granted - September 25, 2013	September 24, 2023	66,666	66,666	\$0.06	6.2
Granted - May 30, 2014	May 29, 2024	66,667	66,667	\$0.06	6.9
Granted - June 15, 2016	June 14, 2026	6,866,667	3,433,333	\$0.06	9.0
Balance at June 30, 2017		7,000,000	3,566,667	\$0.06	9.0

#### As at June 30, 2016:

Grant date	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Remaining contractual life (years)
Granted - January 17, 2011	January 16, 2021	1,700,000	1,700,000	\$0.50	4.6
Granted - June 29, 2011	June 28, 2021	330,000	330,000	\$0.55	5.1
Granted - September 25, 2013	September 24, 2023	1,480,000	1,480,000	\$0.20	7.3
Granted - May 30, 2014	May 29, 2024	2,800,000	2,800,000	\$0.13	8.0
<b>Cancelled</b>	<b>June 14, 2016</b>	<b>(6,310,000)</b>	<b>(6,310,000)</b>	-	-
Re-priced	September 24, 2023	66,666	66,666	\$0.06	8.0
Re-priced	May 29, 2024	66,667	66,667	\$0.06	8.0
Granted – June 15, 2016	June 14, 2026	6,866,667	1,716,667	\$0.06	10.0
Balance at June 30, 2016		7,000,000	1,850,000	\$0.06	9.9

Following the share consolidation (Note 8(a)), the Board of Directors noted that the stock options were “out of the money” and as a result failed to meet the objectives of the stock option plan. The Board of Directors determined that it was in the best interest of the Company to issue additional stock options. The stock options outstanding prior to consolidation were cancelled with the exception of 133,333 stock options held by consultants, which were re-priced to C\$0.06.

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Reported in US dollars unless indicated otherwise)

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### **8. SHARE CAPITAL (continued)**

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 in arriving at the fair value for the options that were issued June 15, 2016.

	June 15, 2016
Risk free interest rate	1.12%
Expected life	10 years
Expected volatility	109%
Dividends	Nil
Forfeiture rate	5%
Fair value at issuance	\$0.04

### **9. FINANCIAL INSTRUMENTS**

#### **Determination of fair values**

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the consolidated interim statement of comprehensive loss. Those categories are fair value through profit or loss; loans and receivables; and, for most liabilities, other financial liabilities.

In establishing fair value, the Company used 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.

Cash and cash equivalents are measured at level 1; warrant derivative financial instruments are measured at level 2.

The carrying value of accounts receivable, subscriptions receivable, accounts payable and accrued liabilities and current liabilities due to related parties, approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value, see (Note 8(b)). Non-current liabilities due to related parties are initially recorded at fair value, which is determined by discounting the liability using an applicable market rate (Note 6(e)).

#### **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.



## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements

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(Reported in US dollars unless indicated otherwise)

### 9. FINANCIAL INSTRUMENTS (continued)

#### Foreign currency risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in the Canadian Dollar, the United States dollar, the Euro and UK Sterling and the local currency in Malawi (Kwacha). The Company raises its equity in the Canadian dollar and UK Sterling and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. The Company's exposure to foreign currency risk as at

June 30, 2017 and 2016 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	As at June 30,	
	2017	2016
Cash and cash equivalents:		
Canadian dollars	\$ 160	\$ 5,674
United States dollars	655	537
Euro and UK Sterling	497,279	1,114,843
Malawi Kwacha	258	185
Warrants – derivative financial instruments	(1,271,560)	(2,615,490)
Due to related parties	(326,974)	-
	<u>\$ (1,100,182)</u>	<u>\$ (1,494,251)</u>

A 5% reduction in the value of the Canadian dollar, Euro and UK Sterling in comparison to the United States dollar would cause a change in (loss) income of approximately \$30,000. A 5% change in the value of the Malawi Kwacha in relationship to the United States dollar would not cause a material change in net (loss) income.

#### Interest rate risk

The Company's exposure to interest rate risk relates primarily to its cash and cash equivalents at banks. 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:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than the fair value; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issuances or obtain project debt financing.

The Company manages its liquidity risk by maintaining adequate cash and cash equivalents. The Company 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 liabilities as at June 30, 2017:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	\$ 77,829	\$ 77,829	\$ -
Due to related parties	\$ 326,974	\$ -	\$ 326,974

#### Credit risk

The Company's principal financial assets are cash and cash equivalents. The credit risk on cash and cash equivalents is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies. Accounts receivable consists of GST and interest on investments with a credible financial institution. The Company received the proceeds from subscriptions receivable shortly after year-end.

## **MKANGO RESOURCES LTD.**

Notes to the Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

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### **10. COMMITMENTS**

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Malawi Government on a three-year basis, originally, and has subsequently been renewed with the most recent renewal on January 21, 2017 for a further 2 years to January 21, 2019. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate MWK724):

Exploration commitments, 2 years	\$ 207,182
Ground rent, 2 years	25,762
<hr/>	
Total commitment, 2 years	<hr/> \$ 232,944

On September 10, 2010, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 468 km<sup>2</sup> in Thambani, Mwanza District, Malawi. The license was issued by the Malawi Government 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 sq km. The license has subsequently renewed for a further 2 years to September 8, 2019. The future spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate MWK724):

Exploration commitments, 2 years	\$ 34,530
Ground rent, 2 years	4,153
<hr/>	
Total commitment, 2 years	<hr/> \$ 38,683

The Company is continuing to meet the terms and conditions of its two 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.

### **11. CAPITAL MANAGEMENT**

The Company's total capital consists of shareholders' deficiency, which amounts to \$1,182,221 as at June 30, 2017. The operations of the Company for the next 12 months are currently being funded by the net proceeds of an equity placement completed upon listing on the AIM on June 15, 2016, and a second placement which closed on December 30, 2016 (Note 8(a)) and by future equity placements.

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.