



Consolidated Interim Financial Statements of

**MKANGO RESOURCES LTD.**

For the three and six months ended June 30, 2015 and 2014

**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, 2015 and 2014.**

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

| As at                                       | Notes | June 30,<br>2015 | December 31,<br>2014 |
|---|-------|------------------|----------------------|
| <b>ASSETS</b>                               |       |                  |                      |
| Current                                     |       |                  |                      |
| Cash and cash equivalents                   |       | \$ 62,303        | \$ 161,009           |
| Accounts receivable                         |       | 4,981            | 7,386                |
| Prepaid expenses                            |       | 9,836            | 13,477               |
| Total currents assets                       |       | 77,120           | 181,872              |
| Property and equipment                      | 5     | 158              | 3,806                |
| Total assets                                |       | 77,278           | 185,678              |
| <b>LIABILITIES</b>                          |       |                  |                      |
| Current                                     |       |                  |                      |
| Accounts payable and accrued liabilities    |       | 143,173          | 81,153               |
| Due to related party                        | 6     | 258,846          | 174,334              |
| Total current liabilities                   |       | 402,019          | 255,487              |
| Long term                                   |       |                  |                      |
| Warrants - derivative financial instruments | 7(b)  | 293,603          | 1,614,013            |
| Total liabilities                           |       | 695,622          | 1,869,500            |
| <b>EQUITY (DEFICIENCY)</b>                  |       |                  |                      |
| Share capital                               | 7(a)  | 7,173,622        | 7,173,622            |
| Subscription receivable                     |       | 61,522           | -                    |
| Contributed surplus                         |       | 2,666,122        | 2,555,367            |
| Accumulated other comprehensive income      |       | 28,851           | 53,856               |
| Deficit                                     |       | (10,548,461)     | (11,466,667)         |
| Total deficit                               |       | (618,344)        | (1,683,822)          |
| Total liabilities and deficit               |       | \$ 77,278        | \$ 185,678           |
| Going concern                               | 2     |                  |                      |
| Commitments                                 | 9     |                  |                      |
| Subsequent event                            | 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 Income (Loss)****Reported in US dollars****(Unaudited)**

|  |       | For the three months ended |               | For the six months ended |               |
|--|-------|----------------------------|---------------|--------------------------|---------------|
|  |       | June 30,                   |               | June 30,                 |               |
|  | Notes | 2015                       | 2014          | 2015                     | 2014          |
| <b>Expenses</b>  |       |                            |               |                          |               |
| General and administrative                                   |       | <b>\$109,178</b>           | \$369,997     | <b>\$290,171</b>         | \$613,988     |
| Mineral exploration expenditures                             |       | <b>46,316</b>              | 431,000       | <b>24,786</b>            | 584,583       |
| Depreciation   | 5     | <b>8</b>                   | 312           | <b>14</b>                | 623           |
| Share based payments   | 7(c)  | <b>47,182</b>              | 68,694        | <b>110,755</b>           | 141,703       |
|  |       | <b>202,684</b>             | 870,003       | <b>425,726</b>           | 1,340,897     |
| <b>Other items</b>   |       |                            |               |                          |               |
| Interest income  |       | <b>(2)</b>                 | (332)         | <b>(7)</b>               | (332)         |
| Unrealized (gain) loss on revaluation of warrants            | 7(b)  | <b>(1,336,185)</b>         | 274,101       | <b>(1,320,410)</b>       | 273,296       |
| Loss on sale of asset  |       | -                          | -             | <b>220</b>               | -             |
| Foreign exchange (gain) loss                                 |       | <b>(38,702)</b>            | 12,200        | <b>(23,735)</b>          | (23,276)      |
| <b>Net income (loss)</b>                                     |       | <b>\$1,172,205</b>         | \$(1,155,972) | <b>\$918,206</b>         | \$(1,590,585) |
| <b>Other comprehensive income</b>                            |       |                            |               |                          |               |
| Items that may be reclassified subsequently to net loss      |       |                            |               |                          |               |
| Exchange difference on translating foreign operations        |       | <b>(9,435)</b>             | -             | <b>(25,005)</b>          | -             |
| <b>Total comprehensive income (loss)</b>                     |       | <b>\$1,162,770</b>         | \$(1,155,972) | <b>\$893,201</b>         | \$(1,590,585) |
| <b>Net loss per share - basic and diluted</b>                |       | <b>\$0.01</b>              | \$(0.02)      | <b>\$0.01</b>            | \$(0.03)      |
| <b>Weighted average shares outstanding basic and diluted</b> |       | <b>73,296,956</b>          | 73,083,668    | <b>73,296,956</b>        | 62,515,283    |

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

|  |       | For the six months ended<br>June 30, |               |
|--|-------|--------------------------------------|---------------|
|  | Notes | 2015                                 | 2014          |
| <b>Cash used by from operating activities</b>                  |       |                                      |               |
| Net income (loss) for the period                               |       | \$918,206                            | \$(1,590,585) |
| <i>Items not affecting cash</i>                                |       |                                      |               |
| Share based payments   | 7(c)  | 110,755                              | 141,703       |
| Unrealized gain on revaluation of warrants                     | 7(b)  | (1,320,410)                          | 273,296       |
| Depreciation   | 5     | 14                                   | 623           |
| Unrealized foreign exchange (gain) loss                        |       | (23,735)                             | (33,471)      |
| <i>Change in non-cash operating capital</i>                    |       |                                      |               |
| Accounts receivable and prepaid expenses                       |       | 6,046                                | 29,468        |
| Accounts payable, accrued liabilities and due to related party |       | 146,532                              | 171,075       |
| Cash used by operating activities                              |       | (162,592)                            | (1,007,890)   |
| <b>Cash flow from financing activities</b>                     |       |                                      |               |
| Issue of share capital, net of issue costs                     |       | -                                    | 1,804,877     |
| Subscriptions receivable                                       |       | -                                    | -             |
| Cash provided by financing activities                          |       | -                                    | 1,804,877     |
| <b>Cash flow from investing activities</b>                     |       |                                      |               |
| Disposal of asset  |       | 2,811                                | -             |
| Cash provided by investing activities                          |       | 2,811                                | -             |
| Effect of exchange rate changes on cash                        |       | 61,075                               | 38,596        |
| <b>Change in cash and cash equivalents</b>                     |       | (98,706)                             | 835,582       |
| Cash and cash equivalents at the beginning of the period       |       | 161,009                              | 437,378       |
| <b>Cash and cash equivalents at the end of the period</b>      |       | \$62,303                             | \$1,272,960   |

Refer to accompanying notes to the consolidated interim financial statements.

**MKANGO RESOURCES LTD.**  
**Consolidated Interim Statements of Changes in Equity (Deficit)**  
**Reported in US dollars**  
**(Unaudited)**

|                                    | Share<br>capital   | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Deficit               | Total                |
|------------------------------------|--------------------|------------------------|---|-----------------------|----------------------|
| Balance at December 31, 2013       | \$7,370,698        | \$2,080,195            | \$ -  | \$(9,153,573)         | \$297,320            |
| Common shares issued               | 2,046,281          | -                      | -   | -                     | 2,046,281            |
| Common shares issued - agent fee   | 2,184              | -                      | -   | -                     | 2,184                |
| Share issue costs                  | (241,404)          | -                      | -   | -                     | (241,404)            |
| Warrant valuation                  | (1,915,921)        | -                      | -   | -                     | (1,915,921)          |
| Share issue costs - agent warrants | (87,230)           | 87,230                 | -   | -                     | -                    |
| Share based payments               | -                  | 141,703                | -   | -                     | 141,703              |
| Total comprehensive loss           | -                  | -                      | -   | (1,590,585)           | (1,590,585)          |
| <b>Balance at June 30, 2014</b>    | <b>\$7,174,608</b> | <b>\$2,309,128</b>     | <b>\$ -</b>                                     | <b>\$(10,744,158)</b> | <b>\$(1,260,422)</b> |
| Common shares issued               | -                  | -                      | -   | -                     | -                    |
| Common shares issued - agent fee   | -                  | -                      | -   | -                     | -                    |
| Share issue costs                  | (986)              | -                      | -   | -                     | (986)                |
| Expired warrants                   | -                  | 18,115                 | -   | -                     | 18,115               |
| Warrant valuation                  | -                  | -                      | -   | -                     | -                    |
| Share based payments               | -                  | 228,124                | -   | -                     | 228,124              |
| Total comprehensive loss           | -                  | -                      | 53,856  | (722,509)             | (668,653)            |
| Balance at December 31, 2014       | \$7,173,622        | \$2,555,367            | \$53,856  | \$(11,466,667)        | \$(1,683,822)        |
| Share based payments               | -                  | 110,755                | -   | -                     | 110,755              |
| Subscription receivable            | 61,522             | -                      | -   | -                     | 61,522               |
| Total comprehensive loss           | -                  | -                      | (25,005)  | 918,206               | 885,701              |
| <b>Balance at June 30, 2015</b>    | <b>\$7,235,144</b> | <b>\$2,666,122</b>     | <b>\$28,851</b>                                 | <b>\$(10,548,461)</b> | <b>\$(625,844)</b>   |

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, 2015 and 2014  
(Reported in US dollars unless indicated otherwise)  
(Unaudited)

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## **1. GENERAL INFORMATION**

The principal business of Mkango Resources Ltd (the “Company” or “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 the Company were amended to change the name of the Company from Alloy Capital Corp. to Mkango Resources Ltd. Mkango’s head office is located at 259 Windermere Road SW, Calgary, Alberta Canada, T3C 3L2.

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 BVI’s registered office is located at 56 Administration Drive, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Lancaster 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.

The consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on August 10, 2015.

## **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 recognized net income of \$1,172,205 and \$918,206 for the three and six months ended June 30, 2015, respectively, compared to a loss of (\$1,155,972) and (\$1,590,585) for the three and six months ended June 30, 2014, respectively (Note 7(b)). The Company has a deficit of \$10,548,461 (December 31, 2014 - \$11,466,667). These factors indicate material uncertainties, which may cast significant doubt on the Company’s ability to continue as a going concern. The Company is in the process of acquiring, exploring and developing its mineral interests.

Management has significantly scaled down its administrative and exploration expenditures for 2015 and as such believes that the funds available combined with future equity placements will generate sufficient cash flow to maintain the Company’s ability to meet its short and medium term objectives and milestones. The Company is currently funding its operations with equity raised in a non-brokered private placement (“Financing”), which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 7).

In addition to the equity financing, the Company was approved to receive the South African Department of Trade and Industry (“DTI”) grant on May 26, 2014 for an amount of Rand 7,967,804 (USD\$656,326) under the Capital Projects Feasibility Program. The grant will be dispersed to the Company as the Company meets certain milestones in relation to a number of activities including environmental and social impact studies, mine planning, design of the processing plant and tailings storage facility, flotation and hydrometallurgical optimization and marketing studies.

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 the date of this report.

### **(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, 2015 and 2014  
(Reported in US dollars unless indicated otherwise)  
(Unaudited)

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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 the Company and its Lancaster BVI subsidiary. Effective January 1, 2014, the functional currency of Lancaster Malawi changed from the US dollar to the local currency, the Kwacha, based upon changes in economic facts and circumstances.

#### **(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 or probable reserves assigned are classified as exploration and evaluation expenses and are recognized in the statement of comprehensive loss. The decision to transfer assets from exploration and evaluation to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As of the date of this report, 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 7(b))**

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 equity 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 8)**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

##### **(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

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements  
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### 3. BASIS OF PRESENTATION (continued)

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 the date of this report, 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 financial statements.

##### (i) IFRS 9 financial instruments

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

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, 2017, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

##### (iii) IAS 38 intangible assets

Amendments to IAS 38 provides clarification of acceptable methods of depreciation and amortization. The amendments were issued in May 2014 and apply to annual reporting periods beginning on or after January 1, 2016, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

### 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, 2014. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2014.

### 5. PROPERTY AND EQUIPMENT

|                              | Cost      | Accumulated<br>Depreciation | Net Book Value |
|------------------------------|-----------|-----------------------------|----------------|
| Balance at December 31, 2013 | \$ 10,020 | \$ (4,969)                  | \$ 5,051       |
| Less Depreciation            | -         | (623)                       | (623)          |
| Balance at June 30, 2014     | 10,020    | (5,292)                     | 4,428          |
| Less Depreciation            | -         | (622)                       | (622)          |
| Balance at December 31, 2014 | 10,020    | (6,214)                     | 3,806          |
| Disposal of asset            | (9,733)   | 6,099                       | (3,634)        |
| Less Depreciation            | -         | (14)                        | (14)           |
| Balance at June 30, 2015     | \$ 287    | \$ (129)                    | \$ 158         |

On February 2, 2015, the Company sold a vehicle used in Malawi.



## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements  
For the three and six months ended June 30, 2015 and 2014  
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### 6. 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. Generally the Company repays the disbursements made by Leo Mining on its behalf. During the six months ended June 30, 2015, the Company has incurred costs of \$39,147 (2014 - \$26,460) for administrative services. As of June 30, 2015 the Company has an outstanding payable to Leo Mining in the amount of \$46,419 (2014 – \$26,460). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however, this charge has been waived historically.
- b) Digby Wells Environmental (“Digby”), by virtue of a common director, is considered a related party. During the six months ended June 30, 2015, the Company has incurred costs of \$1,814 (2014 – \$117,621) for environmental services. As of June 30, 2015, there was an outstanding payable to Digby for \$4,120 (2014 – \$34,437).
- c) Stikeman Elliott (London) LLP (“Stikeman”), by virtue of a common director, is considered a related party. During the six months ended June 30, 2015, the Company has incurred costs of \$18,435 (2014 – \$116,202) for legal services. As of June 30, 2015, there was an outstanding payable to Stikeman for \$104,049 (2014 – \$116,202).
- d) Included in due to related parties for the six months ended June 30, 2015, are consulting fees and expense reimbursements due to officers of the Company of \$48,034 (2014 - \$211,910). As of June 30, 2015, there was an outstanding payable to officers of \$104,259 (2014 – \$890). The amounts owed are unsecured, due on demand and non-interest bearing.

### 7. 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.

|   | Ref   | Number     | Amount      |
|---|-------|------------|-------------|
| Closing balance December 31, 2012                   |       | 37,442,855 | \$5,632,076 |
| Non-brokered offering                               | (i)   | 4,285,715  | 730,000     |
| Warrants valuation - March 1, 2013                  |       | -          | (99,771)    |
| Brokered offering                                   | (ii)  | 8,836,033  | 1,522,209   |
| Warrants valuation - April 11, 2013                 |       | -          | (237,062)   |
| Agent warrants                                      | (ii)  | -          | (39,195)    |
| Share issue costs                                   | (iii) | -          | (137,559)   |
| Closing balance December 31, 2013                   |       | 50,564,603 | \$7,370,698 |
| Brokered offering - March 24, 2014                  | (iv)  | 16,262,603 | 1,462,748   |
| Warrants valuation                                  |       | -          | (1,365,728) |
| Agent warrants                                      |       | -          | (59,363)    |
| Agent shares  |       | 24,500     | 2,184       |
| Brokered offering - April 3, 2014                   | (v)   | 6,445,250  | 583,533     |
| Warrants valuation                                  |       | -          | (550,193)   |
| Agent warrants                                      |       | -          | (27,867)    |
| Share issue costs                                   | (vi)  | -          | (242,390)   |
| Closing balance June 30, 2015 and December 31, 2014 |       | 73,296,956 | \$7,173,622 |

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements  
For the three and six months ended June 30, 2015 and 2014  
(Reported in US dollars unless indicated otherwise)  
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### 7. SHARE CAPITAL (continued)

- (i) On March 24, 2014, the Company issued 16,262,603 units at C\$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C\$1,626,260 (US \$1,462,748) gross proceeds of the non-brokered offering were allocated between common shares C\$94,323 (US\$97,026) and warrants C\$1,531,937 (US \$1,365,728) 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\$0.20 until March 24, 2019. The Corporation issued to the Agent 24,500 Units valued at US \$2,184 and 880,782 warrants valued at US \$59,363. Each whole warrant entitles the holder to acquire one common share for C\$0.10 until March 24, 2016. The securities issued, have a hold period of four months and one day from the date of issue.
- (ii) On April 3, 2014, the Company issued 6,445,250 units at C\$0.10 per unit pursuant to the non-brokered offering. Each Unit consists of one common share and one common share purchase warrant of Mkango. The C\$644,525 (US\$583,533) gross proceeds of the non-brokered offering were allocated between common shares C\$36,791 (US\$33,340) and warrants C\$607,734 (US\$550,193) 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\$0.20 until April 3, 2019. The Corporation issued 406,770 agents warrants valued at US\$27,867. Each whole warrant entitles the agent to acquire one common share for C\$0.10 until April 3, 2016. The securities issued, have a hold period of four months and one day from the date of issue.
- (iii) Share issue costs of US \$242,390 were paid for agent and legal services and regulatory exchange filing fees.

#### b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Canadian dollars 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".

|  | Exercise Price<br>(CDN\$) | Weighted<br>Average Years<br>Remaining | Number of<br>Warrants | Amount       |
|--|---------------------------|--|-----------------------|--------------|
| Balance at December 31, 2013           | -                         | -                                      | 6,560,874             | 18,115       |
| Warrants expired – March 1, 2014       | 0.35                      | -                                      | (2,142,858)           | (4,860)      |
| Warrants expired – April 11, 2014      | 0.35                      | -                                      | (4,418,016)           | (13,255)     |
| Warrants issued – March 24, 2014       | 0.20                      | 4.0                                    | 16,262,603            | 1,365,728    |
| Warrants issued – April 3, 2014        | 0.20                      | 4.0                                    | 6,445,250             | 550,193      |
| Foreign exchange effect                | -                         | -                                      | -                     | (63,081)     |
| Fair value change at December 31, 2014 | -                         | -                                      | -                     | (238,827)    |
| Balance at December 31, 2014           | \$ 0.20                   | 4.0                                    | 22,707,853            | \$ 1,614,013 |
| Foreign exchange effect                | -                         | -                                      | -                     | (123,082)    |
| Fair value change at June 30, 2015     | -                         | -                                      | -                     | (1,197,328)  |
| Balance at June 30, 2015               | \$ 0.20                   | 4.0                                    | 22,707,853            | \$ 293,603   |

## MKANGO RESOURCES LTD.

Notes to the Consolidated Interim Financial Statements  
For the three and six months ended June 30, 2015 and 2014  
(Reported in US dollars unless indicated otherwise)  
(Unaudited)

### 7. SHARE CAPITAL (continued)

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:

|                         | March 24, 2014<br>(I) | April 3, 2014<br>(II) | June 30, 2015<br><i>Revaluation</i> |
|-------------------------|-----------------------|-----------------------|-------------------------------------|
| Risk free interest rate | 1.69%                 | 1.67%                 | 0.80 %                              |
| Expected volatility     | 144%                  | 143%                  | 186%                                |
| Share price             | \$0.11                | \$0.11                | \$0.02                              |
| Foreign exchange rate   | 1.1217                | 1.1035                | 1.2474                              |
| Remaining life          | 5.0                   | 5.0                   | 3.7                                 |

#### 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 three months ended June 30, 2015 was \$110,755 (2014 - \$141,703). 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:

|                                     | Options<br>Issued | Options<br>Cancelled<br>(1) | Options<br>Forfeited<br>(2) | Options<br>Expired<br>(3) | Adjusted<br>Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price<br>(CDN\$) | Options<br>Exercisable | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) |
|-------------------------------------|-------------------|-----------------------------|-----------------------------|---------------------------|------------------------------------|---|------------------------|---|
| Balance at December 31, 2012        | 2,942,500         | (850,000)                   | -                           | (62,500)                  | 2,030,000                          | 0.50  | 2,030,000              | 5.8   |
| Granted - September 25, 2013        | 2,030,000         | (37,500)                    | (112,500)                   | -                         | 1,880,000                          | 0.20  | 1,880,000              | 8.2   |
| <b>Balance at December 31, 2013</b> | <b>4,972,500</b>  | <b>(887,500)</b>            | <b>(112,500)</b>            | <b>(62,500)</b>           | <b>3,910,000</b>                   | <b>0.36</b>   | <b>3,910,000</b>       | <b>7.0</b>  |
| Granted May 30, 2014                | 3,000,000         | -                           | -                           | -                         | 3,000,000                          | 0.125   | 1,500,000              | 9.0   |
| <b>Balance at June 30, 2015</b>     | <b>7,972,500</b>  | <b>(887,500)</b>            | <b>(112,500)</b>            | <b>(62,500)</b>           | <b>6,910,000</b>                   | <b>\$0.26</b>                                       | <b>5,410,000</b>       | <b>7.6</b>  |

(1) June 2014 cancelled options:

- 600,000 vested options issued to directors on January 17, 2011, were cancelled.
- 50,000 vested options issued to an employee on January 17, 2011, were cancelled.
- 200,000 vested options related to a resignation, issued December 11, 2012, were cancelled.
- 37,500 vested options related to a resignation, issued on September 25, 2013, were cancelled.

(2) In March 2014, 112,500 unvested options related to a resignation, issued on September 25, 2013, were forfeited.

(3) On June 16, 2014, 62,500 options issued to an investor relations firm on June 16, 2011 expired.

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### 7. SHARE CAPITAL (continued)

| 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         | 5.8                                |
| Granted - June 29, 2011      | June 28, 2021      | 330,000                       | 330,000                       | \$0.55         | 6.0                                |
| Granted - September 25, 2013 | September 24, 2023 | 1,880,000                     | 1,880,000                     | \$0.20         | 8.2                                |
| Granted - May 30, 2014       | May 29, 2024       | 3,000,000                     | 1,500,000                     | \$0.13         | 9.0                                |
| Balance at June 30, 2015     |                    | 6,910,000                     | 5,410,000                     | \$0.26         | 7.6                                |

The fair value of each 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 during the years ended December 31, 2014 and 2013:

|                         | May 30, 2014 | September 25, 2013 |
|-------------------------|--------------|--------------------|
| Risk free interest rate | 2.24%        | 2.57%              |
| Expected life           | 10 years     | 10 years           |
| Expected volatility     | 142%         | 128%               |
| Dividends               | Nil          | Nil                |
| Forfeiture rate         | 5%           | 5%                 |
| Fair value at issuance  | \$0.12       | \$0.17             |

### 8. 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 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 and restricted cash are measured at level 1; warrant derivative financial instruments are measured at level 2.

The carrying value of accounts receivable, accounts payable and accrued liabilities and 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 to be recorded as a derivative liability and carried at fair value, see Note 7(b).

#### 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 rate 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, and the local currency in Malawi (Kwacha). The Company

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### 8. FINANCIAL INSTRUMENTS (CONTINUED)

raises its equity in the Canadian dollar and then purchases United States dollar and Malawi Kwacha funds to settle liabilities, as required. As at June 30, 2015 and 2014, the following cash balances were held by the Company:

|                      | As at June 30,   |                     |
|----------------------|------------------|---------------------|
|                      | 2015             | 2014                |
| Canadian dollar      | \$ 61,877        | \$ 1,249,794        |
| United States dollar | 826              | 5,131               |
| Malawi Kwacha        | -                | 18,035              |
|                      | <u>\$ 62,303</u> | <u>\$ 1,272,960</u> |

A 15% reduction in the value of the Canadian dollar in comparison to the United States dollar will have an approximately \$9,000 effect on the Company's cash balance.

#### 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 issues 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 assets and liabilities.

The following table outlines the maturities of the Company's liabilities:

|  | Contractual Cash Flows | Less than 1 Year |
|--|------------------------|------------------|
| Accounts payable and accrued liabilities | \$ 143,176             | \$ 143,176       |
| Due to related parties                   | \$ 258,846             | \$ 258,846       |

#### 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.

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### **9. 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 on January 20, 2015 was renewed for an additional two years. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha (foreign exchange rate MWK441):

|   |                   |
|---|-------------------|
| Exploration commitments, 2 years        | \$ 340,136        |
| Ground rent, 2 years                    | 19,254            |
| <u>Total annual commitment, 2 years</u> | <u>\$ 359,390</u> |

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 on a three-year basis, originally, and as of September 10, 2013 was renewed for an additional two years. The future spending commitments for exploration expenses with the Government of Malawi are 250,000,000 Kwacha (foreign exchange rate MWK441):

|   |                   |
|---|-------------------|
| Exploration commitments, 2 years        | \$ 566,893        |
| Ground rent, 2 years                    | 21,225            |
| <u>Total annual commitment, 2 years</u> | <u>\$ 588,118</u> |

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.

### **10. CAPITAL MANAGEMENT**

The Company's total deficit for the six months ended June 30, 2015 is (\$625,844). The operations of the Company for the next 12 months will be partially funded by a non-brokered private placement ("Financing"), which closed in two tranches on March 24, 2014 and April 3, 2014 (Note 7) 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.

### **11. SUBSEQUENT EVENT**

On July 31, 2015, the Company closed the first tranche of its non-brokered private placement (the "Private Placement"), raising C\$750,000 of the total Private Placement of up to C\$1.5 million announced in its press release dated July 6, 2015. 30,000,000 units (the "Units") were issued at a price of C\$0.025 per Unit for gross proceeds of C\$750,000.

Each Unit consisted of one common share of the Corporation (a "Common Share") and one half of a Common Share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to acquire one Common Share at a price of C\$0.05 for a period of 3 years following the closing date of the Private Placement.

The Corporation paid cash finders' fees totalling C\$3,500 and issued 1,680,000 Units and 1,820,000 finders' warrants in connection with the Private Placement. Each finder's warrant entitles the holder to acquire one Common Share for C\$0.05 until July 31, 2016.