



Condensed Interim Consolidated Financial
Statements

MKANGO RESOURCES LTD.

For the three and nine months ended 30 September 2023 and 2022

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

| | Notes | As at 30 September 2023 | As at 31 December 2022 |
|---|-------|----------------------------|---------------------------|
| ASSETS | | | |
| Current | | | |
| Cash | | 2,279,766 | 493,703 |
| Government remittances receivable | 5 | 39,593 | 13,736 |
| Other receivables | | 4,012 | 24,157 |
| Prepaid expenses and accrued income | | 232,748 | 144,140 |
| Due from related parties | 10 | - | 4,646 |
| Total current assets | | 2,556,119 | 680,382 |
| Non-current | | | |
| Intangible exploration and evaluation assets | 6 | 619,219 | 273,763 |
| Goodwill | 9 | 5,218,332 | - |
| Property, plant and equipment | 7 | 97,710 | 48,199 |
| Investment in associate | 8 | - | 396,992 |
| Government remittances receivable | 5 | 139,330 | 127,565 |
| Total non-current assets | | 6,074,591 | 846,519 |
| TOTAL ASSETS | | 8,630,710 | 1,526,901 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 11 | 459,891 | 773,245 |
| Short-term contingent consideration | | 985,243 | - |
| Due to related parties | 10 | 15,249 | 186,426 |
| Total current liabilities | | 1,460,385 | 959,671 |
| Non-current | | | |
| Long-term contingent consideration | | 1,675,827 | - |
| Convertible loan note | 12 | - | 1,603,696 |
| Embedded derivative liability | 13 | - | 129,650 |
| Total non-current liabilities | | 1,675,827 | 1,733,346 |
| TOTAL LIABILITIES | | 3,136,212 | 2,693,017 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 14 | 43,522,134 | 38,376,817 |
| Contributed surplus | | 5,560,319 | 5,120,801 |
| Accumulated other comprehensive income | | 185,415 | (23,801) |
| Retained deficit | | (47,768,903) | (44,639,933) |
| Non-controlling interest | | 3,995,535 | - |
| TOTAL EQUITY | | 5,494,500 | (1,166,116) |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 8,630,710 | 1,526,901 |

The notes on pages 7 to 27 are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

William Dawes, Chief Executive Officer, Director

Derek Linfield, Chairman, Director

29 November 2023

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

| | Notes | For the three months ended | | For the nine months ended | |
|--|-------|----------------------------|--|---------------------------|--|
| | | 30 September 2023 | 30 September 2022 (restated)* | 30 September 2023 | 30 September 2022 (restated)* |
| Expenses | | | | | |
| General and administrative | | (1,252,628) | (888,558) | (3,017,826) | (2,800,108) |
| Mineral project expenditures | | <u>(158,708)</u> | <u>(151,987)</u> | <u>(438,919)</u> | <u>(2,224,101)</u> |
| Total Expenses | | <u>(1,411,336)</u> | <u>(1,040,545)</u> | <u>(3,456,745)</u> | <u>(5,024,209)</u> |
| Other items | | | | | |
| Interest income | | 39 | 5 | 48 | 25 |
| Share of associated company losses | 8 | 1,764 | (36,347) | (79,244) | (62,715) |
| Fair value losses | 8 | (2,631) | (5,749) | (8,808) | (19,067) |
| Foreign exchange gain/(loss) | | (93,368) | (30,818) | 25,074 | (216,910) |
| Fair value adjustment – embedded derivative | 12 | <u>(42,823)</u> | <u>-</u> | <u>326,240</u> | <u>-</u> |
| Loss before tax | | <u>(1,548,355)</u> | <u>(1,113,454)</u> | <u>(3,193,435)</u> | <u>(5,322,876)</u> |
| Income tax | | - | - | - | - |
| Loss after tax | | <u>(1,548,355)</u> | <u>(1,113,454)</u> | <u>(3,193,435)</u> | <u>(5,322,876)</u> |
| Loss attributable to | | | | | |
| Common shareholders | | (1,483,890) | (1,113,454) | (3,128,970) | (5,322,876) |
| Non-controlling interest | | <u>(64,465)</u> | <u>-</u> | <u>(64,465)</u> | <u>-</u> |
| Attributable loss | | <u>(1,548,355)</u> | <u>(1,113,454)</u> | <u>(3,193,435)</u> | <u>(5,322,876)</u> |
| Other comprehensive profit/(loss) | | | | | |
| Items that may be reclassified subsequently to net loss: | | | | | |
| Exchange difference on translating foreign operations | | <u>122,090</u> | <u>(147,903)</u> | <u>209,216</u> | <u>91,519</u> |
| Total comprehensive loss | | <u>(1,426,265)</u> | <u>(965,551)</u> | <u>(2,984,219)</u> | <u>(5,231,357)</u> |
| Total comprehensive loss attributable to | | | | | |
| Common shareholders | | (1,361,800) | (965,551) | (2,919,754) | (5,231,357) |
| Non-controlling interest | | <u>(64,465)</u> | <u>-</u> | <u>(64,465)</u> | <u>-</u> |
| Attributable comprehensive loss | | <u>(1,426,265)</u> | <u>(965,551)</u> | <u>(2,984,219)</u> | <u>(5,231,357)</u> |
| Loss per share - basic and diluted | 17 | (0.006) | (0.009) | (0.013) | (0.025) |

The notes on pages 7 to 27 are an integral part of these consolidated financial statements.

*Refer to Note 3 c for explanation of the restatement

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

| | | For the nine months ended: | |
|--|--------------|-----------------------------------|--|
| | Notes | 30 September 2023 | 30 September 2022 (restated)* |
| Cash flow used by operating activities | | | |
| Loss for the period | | (3,193,435) | (5,322,876) |
| Adjustments for: | | | |
| Share based payments | | 439,518 | 877,340 |
| Issue of shares in exchange for services | | 69,000 | - |
| Share of associated company losses | 8 | 79,244 | 62,715 |
| Fair value losses | 8 | 8,788 | 19,067 |
| Depreciation | 7 | 16,098 | 15,979 |
| Fair value adjustment – embedded derivative | | 326,240 | - |
| Unrealised foreign exchange loss/(profit) | | - | 1,471 |
| Change in non-cash operating capital | | | |
| Government remittances receivable and prepaid expenses | | (101,438) | (13,088) |
| Due to related parties | | (171,177) | 11,444 |
| Accounts payable and accrued liabilities | | (313,352) | (758,284) |
| Cash flow used by operating activities | | <u>(2,840,513)</u> | <u>(5,106,232)</u> |
| Cash flow used by investing activities | | | |
| Acquisition of intangible assets | 6 | (345,456) | (101,023) |
| Acquisition of property, plant and equipment | 7 | (32,316) | (1,965) |
| Acquisition of HyProMag – cash consideration | 9 | (1,271,086) | - |
| Cash acquired as part of acquisition | 9 | 231,029 | - |
| Cash flow used by investing activities | | <u>(1,417,829)</u> | <u>(102,988)</u> |
| Cash flow generated by financing activities | | | |
| Proceeds from CoTec advance note | 11,12 | 517,019 | 1,181,490 |
| Share issue proceeds | | 4,214,600 | - |
| Share issue expenses | | (283,708) | (1,557) |
| CoTec investment into Maginito | | 1,853,700 | - |
| Cash flow generated by financing activities | | <u>6,301,611</u> | <u>1,179,933</u> |
| Effect of exchange rate changes on cash | | (257,206) | - |
| Change in cash | | 1,786,063 | (4,029,287) |
| Cash at the beginning of the period | | 493,703 | 4,446,850 |
| Cash at the end of the period | | 2,279,766 | 417,563 |

The notes on pages 7 to 27 are an integral part of these consolidated financial statements.

*Refer to Note 3 c for explanation of the restatement

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

| | Share Capital | Shares to be issued reserve | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Deficit | Non-controlling interest ("NCI") | Total |
|---|-------------------|--------------------------------|------------------------|---|---------------------|-------------------------------------|--------------------|
| Balance at 31 December 2021 (restated) * | 38,148,271 | 231,103 | 4,156,813 | 122,378 | (38,653,970) | - | 4,004,595 |
| Loss for the year | - | - | - | - | (5,985,963) | - | (5,985,963) |
| Other comprehensive income: | | | | | | | |
| Foreign exchange gains/(losses) | - | - | - | (146,179) | - | - | (146,179) |
| Total comprehensive loss | - | - | - | (146,179) | (5,985,963) | - | (6,132,142) |
| Transactions with owners: | | | | | | | |
| Issue of shares | 231,103 | (231,103) | - | - | - | - | - |
| Share issue expenses | (2,557) | - | - | - | - | - | (2,557) |
| Share-based payments | - | - | 963,988 | - | - | - | 963,988 |
| Total transactions with owners | 228,546 | (231,103) | 963,988 | - | - | - | 961,431 |
| Balance at 31 December 2022 | 38,376,817 | - | 5,120,801 | (23,801) | (44,639,933) | - | (1,166,116) |
| Loss for the period | - | - | - | - | (3,128,970) | (64,465) | (3,193,435) |
| Other comprehensive income | | | | | | | |
| Foreign exchange gains/(losses) | - | - | - | 209,216 | - | - | 209,216 |
| Total comprehensive loss | - | - | - | 209,216 | (3,128,970) | (64,465) | (2,984,219) |
| Transactions with owners: | | | | | | | |

| | | | | | | | |
|--|-------------------|----------|------------------|----------------|---------------------|------------------|------------------|
| CoTec investment into Maginito | - | - | - | - | - | 1,853,700 | 1,853,700 |
| Conversion of convertible loan note into Maginito shares | - | - | - | - | - | 2,206,300 | 2,206,300 |
| Issue of shares | 5,429,025 | - | - | - | - | - | 5,429,025 |
| Share issue expenses | (283,708) | - | - | - | - | - | (283,708) |
| Share based payments | - | - | 439,518 | - | - | - | 439,518 |
| Balance at 30 September 2023 | 43,522,134 | - | 5,560,319 | 185,415 | (47,768,903) | 3,995,535 | 5,494,500 |

The notes on pages 7 to 27 are an integral part of these consolidated financial statements.

*Refer to Note 3 c for explanation of the restatement

MKANGO RESOURCES LTD

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2023 and 2022

Reported in US dollars unless indicated otherwise

1. GENERAL INFORMATION

Mkango Resources Ltd (“Mkango”) was originally incorporated under the name Alloy Capital Corp. (“Alloy”) on 13 November 2007, under the laws of the Province of Alberta, Canada. On 10 December 2010, Alloy was acquired through a “reverse takeover” by Lancaster Exploration (“Lancaster BVI”). The articles of Mkango were amended to change its name from Alloy Capital Corp. to Mkango Resources Ltd. On 15 October 2018, Mkango discontinued its incorporation in Alberta, Canada and became incorporated in the province of British Columbia, Canada. Mkango’s registered office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

Mkango’s corporate strategy is to develop new sustainable primary and secondary sources of neodymium, praseodymium, dysprosium and terbium to supply accelerating demand from electric vehicles, wind turbines and other clean technologies.

On 3 August 2007, Lancaster BVI was incorporated by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands Companies Act. Lancaster BVI is 100% owned by Mkango. Lancaster BVI’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

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

On 3 January 2018, Maginito Limited (“Maginito”) was incorporated under the laws of the British Virgin Islands. Maginito is 79.4% owned by Mkango. Maginito’s registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

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

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

Mkango Polska Sp. z o.o. (“Mkango Polska”) was incorporated under the laws of Poland and 100% ownership was acquired by Mkango on 22 March 2021. Mkango Polska is developing a rare earth separation plant at Pulawy in Poland, working with Grupa Azoty Pulawy, Poland’s leading chemicals company and the second-largest manufacturer of nitrogen and compound fertilisers in the European Union. The Pulawy Separation Plant is expected to process the purified mixed rare earth carbonate derived from the Songwe Hill project in Malawi, separating it into rare earth oxides.

On 23 June 2021, Mkango Rare Earths UK Limited (“Mkango UK”) was incorporated under the laws of England and Wales. Mkango UK was previously 100% owned by Mkango. On 16 March 2023, Mkango UK was restructured and it is now a 100% owned subsidiary of Maginito.

On 9 December 2022, Mkango ServiceCo UK Limited (“Mkango ServiceCo”) was incorporated under the laws of England and Wales. Mkango ServiceCo is 100% owned by Mkango.

On 2 August 2023, Maginito completed the acquisition of the remaining 58.4% of the share capital of HyProMag Limited (“HyProMag UK”) to increase its ownership to 100% of the share capital in HyProMag UK.

HyProMag UK owns 80% of HyProMag GmbH (“HyProMag Germany”).

The consolidated financial statements were authorised for issuance by the Board of Directors of the Company on 29 November 2023.

2. GOING CONCERN

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

The Company's consolidated cash balance at 30 September 2023 was \$2,279,766 and working capital was \$1,095,734. The Company is reviewing future funding alternatives to provide investment for ongoing and new projects and to provide working capital sufficient to fund Mkango's operations in the 12 months from the date of signing the financial statements.

Risks to the forecast include the risk of being unable to secure funding. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. To address this material uncertainty, the Directors have identified a range of options to mitigate these risks and to ensure sufficient funding is available, including continuing discussions with funding providers.

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

3. BASIS OF PRESENTATION

(a) Statement of compliance

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

(b) Basis of presentation and measurement

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

(c) Prior period adjustment

On 29 October 2021, 4,000,000 Restricted Share Units were granted to Alex Lemon and Will Dawes. The vesting period was originally determined as 244 days. As such, the share option charge relating to this grant was fully expensed in FY2021 and FY2022. During the year ended 31 December 2022, management identified that the vesting period was incorrect and should have been ten years.

In the comparatives for the 3 months and 9 months ended 30 September 2022, the following adjustments have been made to the Group:

Consolidated statement of comprehensive loss

A decrease of \$1,050,249 in general and administrative expenses resulting in a decrease in comprehensive loss for the nine-month period ending 30 September 2022 from \$6,281,606 to \$5,231,357.

Consolidated statement of cash flows

Within the cash flow used by operating activities, a decrease of \$1,050,249 in comprehensive loss for the nine-month period ending 30 September 2022 from \$6,373,125 to \$5,322,876 and a resulting corresponding decrease in non-cash flow items: share based payments decreased from \$1,927,589 to \$877,340.

(d) Functional and presentation currency and principles of consolidation

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

| Entity Name | Functional Currency | Ownership Percentage |
|--|----------------------------|-----------------------------|
| Lancaster Exploration (“Lancaster BVI”) | US Dollar | 100% (2022: 100%) |
| Lancaster Exploration Limited (“Lancaster Malawi”) | Malawi Kwacha | 100% (2022: 100%) |
| Maginito Limited (“Maginito”) | Pound Sterling | 79.4% (2022: 100%) |
| MKA Exploration Limited (“MKA Exploration”) | Malawi Kwacha | 100% (2022: 100%) |
| MKA Exploration Limited (“MKA Exploration Malawi”) | Malawi Kwacha | 100% (2022: 100%) |
| Mkango Rare Earths UK Limited (“Mkango UK”) | Pound Sterling | 79.4% (2022: 100%) |
| Mkango Polska Sp. z o.o. (“Mkango Polska”) | Euros | 100% (2022: 100%) |
| Mkango ServiceCo UK Limited (“Mkango ServiceCo”) | Pound Sterling | 100% (2022: 100%) |
| HyProMag Limited (“HyProMag UK”) | Pound Sterling | 79.4% (2022: 41.6%) |
| HyProMag GmbH (“HyProMag Germany”) | Euros | 63.5% (2022: 33.3%) |

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

(e) Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company’s voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historical patterns in voting

Subsidiaries are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders’ proportionate share of the acquiree’s identifiable net assets (after any relevant fair value adjustments to the assets, liabilities and contingent liabilities recognised as part of the business combination).

Changes in the Group’s ownership interests that do not result in a loss of control are accounted for as equity transactions with the existing shareholder.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity. The non-controlling interests’ share of losses, where applicable, is attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

(f) Use of estimates and judgments

The preparation of the consolidated financial statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of accounting policies

and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(i) Impairment of investment in associate (prior year)

In considering whether there is any impairment to the carrying value of the investment in the associate, management considered whether there was any objective evidence of impairment. Management reviewed the financial statements and budgeted cash flows for the associate as well as the implied valuation based on the investment into Maginito by CoTec, and these did not show any indications of financial difficulty. Management considered the technology applied by the associate which is innovative and proven. The Company concluded that no impairment indicators were evident.

(ii) Carrying value of exploration and evaluation intangible assets

The carrying value was \$619,219 at 30 September 2023 (31 December 2022: \$273,763). The group has determined that there are no indicators of impairment present in accordance with *IFRS 6: Exploration for and evaluation of mineral interests*. Management's conclusion required judgement based on the current status and expected future progress of the exploration and evaluation intangible assets.

(iii) Valuation of Goodwill

The recoverable amount of goodwill is assessed at each reporting date for any indications of impairment. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate used in the assessment of the carrying value of goodwill was based on the interest rates of the Group's existing loans.

As at the date these financial statements were authorised for issue, the fair value exercise had not been completed and as such the values above are the provisional fair values. The Company is currently undertaking an assessment of the fair values of the assets and liabilities acquired, as required by IFRS 3. The consideration for the HyProMag acquisition is also subject to adjustments for contingent obligation, the fair value of which is being assessed in line with terms of the contract.

(iv) Fair value of contingent consideration

The fair value of the contingent consideration was estimated based on the Group's expectation of the future performance of the business, discounted to reflect the timing of the expected payments.

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

(i) Measurement of the fair value of options related to investment in associate (prior year)

The Company has made estimates in determining the fair value of the option to acquire further shares in its associate. The Company used Black Scholes model to determine the fair value of the option. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historical trends together with any new information to determine the best estimate of fair value at the date of initial recognition and at each period end.

(ii) Share options

The Company issues share options to key members of staff and directors. The Company used a Black Scholes model to determine the fair value of the share options. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and time to maturity.

(v) Valuation of embedded derivative financial liability

The Company has made estimates in determining the fair value of the embedded conversion feature portion of the CoTec funding and has used the Black Scholes model to determine the fair value of the embedded derivative financial liability. Inputs to the model are subject to various estimates about volatility, interest rates and expected life of the instrument issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historical trends together with any new information to determine the best estimate of fair value at the date of initial recognition and at each period end.

(g) Accounting standards, amendments and interpretations effective in 2023

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

The following new standards, amendments or interpretations were adopted from 1 January 2023:

IFRS 17 Insurance Contracts;

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practise Statement 2);

Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors); and

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes).

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

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future periods and which the Group has chosen not to adopt early. The Company is still evaluating these new standards, however we do not expect them to have a significant effect on the Group, in particular:

| | Effective Date |
|--|----------------|
| IFRS 16 Leases (Amendment - Liability in a Sale and Leaseback) | 1 January 2024 |
| IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current) | 1 January 2024 |
| IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants) | 1 January 2024 |

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Mineral exploration expenditures and property and equipment assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

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

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

Property and equipment (“P&E”) expenditures

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

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

(ii) Subsequent costs

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

(iii) Depletion and depreciation

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

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

(b) Investment in associate (prior year)

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

(c) Government grants

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

(d) Impairment

Non-financial assets

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

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

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

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

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

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

(e) Decommissioning obligation

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

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at 30 September 2023 and 31 December 2022, no decommissioning obligation has been recognised.

(f) Foreign currency translation

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

Foreign currency translation adjustments are required each reporting period for subsidiaries of the Company, having functional currencies which differ from the presentation currency. Assets and liabilities are translated at exchange rates in effect at the date of the consolidated statement of financial position and expenses are translated at the average rate for the year with gains or losses recognised in other comprehensive loss.

(g) Taxation

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

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

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

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

(h) Per-share amounts

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

(i) Share-based payments

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

(j) Cash

Cash is comprised of cash on hand.

(k) Provisions

The Company makes a distinction between:

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

- Contingent liabilities: Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events, the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources.
- Provisions are recognised when the liability or obligation, giving rise to the indemnity or payment arises, to the extent that its amount can be reliably estimated and it is probable that the commitment will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather disclosed.

(I) Financial instruments

Classification and measurement of financial assets and liabilities

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

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

- A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised costs using the effective interest method.
- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortised cost or fair value through other comprehensive income.
 - Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

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

- Financial liabilities measured at amortised cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in the consolidated statement of comprehensive income.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognised in the consolidated statement of comprehensive income.
- Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

Impairment of financial assets

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

5. GOVERNMENT REMITTANCES RECEIVABLE

| | 30 September 2023 | 31 December 2022 |
|-----------------------------|-----------------------|-----------------------|
| Recoverable within one year | 39,593 | 13,736 |
| Recoverable after one year | <u>139,330</u> | <u>127,565</u> |
| | <u><u>178,923</u></u> | <u><u>141,301</u></u> |

The amount recoverable within one year relates to Canadian GST/HST associated with the parent company and VAT associated with UK subsidiaries. The amount recoverable after one year relates to Malawian VAT which will be recovered from future mining taxes.

6. INTANGIBLE ASSETS

Exploration & evaluation assets

Cost

| | |
|-------------------------------------|------------------------------|
| Balance at 31 December 2021 | - |
| Additions | <u>273,763</u> |
| Balance at 31 December 2022 | 273,763 |
| Additions | <u>345,456</u> |
| Balance at 30 September 2023 | <u><u>619,219</u></u> |

The majority of the additions to intangible assets during the current year are directly attributable costs (including legal costs linked to the Mining Development Agreement) relating to the Songwe Hill rare earths project. These costs have been capitalized in terms of *IFRS 6: Exploration for and Evaluation of Mineral Resources*.

7. PROPERTY AND EQUIPMENT

| | Office Equipment | Plant and equipment | Computer Equipment | Vehicles | Total |
|-------------------------------------|---------------------|------------------------|-----------------------|---------------|----------------|
| Cost | | | | | |
| Balance at 31 December 2022 | 289 | 72,090 | 60,256 | 80,011 | 212,646 |
| Additions | - | 35,234 | - | - | 35,234 |
| Acquisition of HyProMag Limited | | 27,024 | 4,794 | | 31,818 |
| Foreign exchange differences | - | (1,476) | - | - | (1,476) |
| Balance at 30 September 2023 | 289 | 132,872 | 65,050 | 80,011 | 278,222 |
| Accumulated Depreciation | | | | | |
| Balance at 31 December 2022 | 289 | 32,816 | 51,331 | 80,011 | 164,447 |
| Depreciation | - | 13,401 | 2,697 | - | 16,098 |
| Foreign exchange differences | - | (33) | - | - | (33) |
| Balance at 30 September 2023 | 289 | 46,184 | 54,028 | 80,011 | 180,512 |
| Net Book Value | | | | | |
| 31 December 2022 | - | 39,274 | 8,925 | - | 48,199 |
| 30 September 2023 | - | 86,688 | 11,022 | - | 97,710 |

8. INVESTMENT IN ASSOCIATE

In January 2020, the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling, incorporated in England and Wales. Maginito invested an initial \$391,650 (£300,000) for a 25% interest in HyProMag and had an option to invest a further £1 million to increase its interest up to 49%. On 1 May 2020, the Company invested a further \$250,280 (£200,000) in HyProMag under a convertible loan facility agreement dated 9 January 2020. The convertible loan was converted at the option of HyProMag on 21 October 2021, increasing Mkango's interest to 41.6%.

On 2 August 2023, Maginito Limited (“Maginito”) completed the acquisition of the remaining 58.4% of the share capital of HyProMag Limited (“HyProMag”) to increase its ownership to 100% of the share capital of HyProMag for a total consideration of \$4,494,538.

| | 30 September 2023 | 31 December 2022 |
|---------------------------------------|--------------------------|-------------------------|
| Cost | | |
| Opening balance | 396,992 | 556,677 |
| Share of post-acquisition losses | (79,244) | (77,338) |
| Fair value losses | (8,788) | (24,315) |
| Foreign exchange difference | 19,594 | (58,032) |
| Included in purchase price allocation | (328,554) | |
| Closing balance | <u>-</u> | <u>396,992</u> |

| | 30 September 2023 | 31 December 2022 |
|----------------------------------|--------------------------|-------------------------|
| Cost or valuation | | |
| Shares | - | 508,402 |
| Share of post-acquisition losses | - | (120,133) |
| Options | - | 8,723 |
| Total investment | <u>-</u> | <u>396,992</u> |

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

| | 30 September 2023 | 31 December 2022 |
|-------------------------------|--------------------------|-------------------------|
| Assets and liabilities | | |
| Non-current assets | N/A | 120,485 |
| Current assets | N/A | 108,533 |
| Current liabilities | N/A | (7,355) |
| Net assets | <u>N/A</u> | <u>221,663</u> |
| Company’s share of net assets | <u>N/A</u> | <u>92,212</u> |
| Income statement | | |
| Losses | N/A | (185,908) |
| Company’s share of losses | <u>N/A</u> | <u>(77,338)</u> |

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

9. HYPROMAG ACQUISITION

On 2 August 2023, Maginito Limited (“Maginito”) completed the acquisition of the remaining 58.4% of the share capital of HyProMag UK to increase its ownership to 100% of the share capital of HyProMag UK for a total consideration of \$4,494,538. As a result of the acquisition, the Group is expected to utilize the patented HPMS technology for its own magnet recycling projects.

The following table summarises the provisional fair value of assets acquired, and liabilities assumed at the acquisition date:

| | Provisional fair values |
|-------------------------------------|--------------------------------|
| Property, plant and equipment | 31,781 |
| Trade and other receivables | 5,263 |
| Cash | 231,029 |
| Trade and other payables | (49,663) |
| Borrowings | (30,608) |
| Total provisional fair value | <u>187,802</u> |
| Consideration | <u>5,406,134</u> |
| Goodwill | <u>5,218,332</u> |

Directly related acquisition costs of \$92,262 have been expensed to the income statement.

Management is still assessing the fair value of identifiable intangible assets and will adjust the provisional fair values to recognise identified intangible assets at year end, in line with paragraph 46 of IFRS 3. The recognition of intangible assets identified will have a corresponding reduction in the value of goodwill recognised.

Purchase consideration

| | |
|--|-------------------------|
| Completion cash | 1,271,086 |
| Fair value of previously held interest | 328,554 |
| Completion equity | 1,145,424 |
| Contingent consideration | <u>2,661,070</u> |
| Total consideration | <u>5,406,134</u> |

The completion equity consideration of 9,742,031 common shares has been fair valued to £901,138 (\$1,145,424) based on the share price of Mkango of £0.0925 at the acquisition date.

As required under IFRS 3.42, the previously held interest of 41.6% has been treated as if it were disposed of and reacquired at fair value on the acquisition date. Mkango management consider the fair value of the previously held equity interest to equal the carrying amount under IAS 28 of \$328,554. Foreign exchange differences relating to the previously held interest in other comprehensive income have been reclassified to profit or loss.

The contingent consideration has been considered a financial liability and has been discounted to present value under IFRS 9 to \$2,661,070.

The net cash sum expended on acquisition in the period ended 30 September 2023 is as follows:

| | |
|--|---------------------------|
| Analysis of cash flows on acquisition | \$ |
| Cash paid as consideration on acquisition | (1,271,086) |
| Cash acquired at acquisition | <u>231,029</u> |
| Net cash outflow on acquisition | <u>(1,040,057)</u> |

10. RELATED-PARTY TRANSACTIONS AND BALANCES

(a) Key management compensation was as follows:

| 9 months ended 30 September 2023 | Consulting fees/ Salaries | Director fees | Total |
|-----------------------------------|------------------------------|------------------|----------------|
| A Lemon | 178,260 | - | 178,260 |
| W Dawes | 169,329 | - | 169,329 |
| D Linfield | - | 65,306 | 65,306 |
| S Muir | - | 18,750 | 18,750 |
| S Treacy* | - | 18,750 | 18,750 |
| R Sewell** | 153,935 | - | 153,935 |
| P Varris*** | - | 8,642 | 8,642 |
| S Motteram | - | - | - |
| Total key management compensation | <u>501,524</u> | <u>111,448</u> | <u>612,972</u> |

| 9 months ended 30 September 2022 | Consulting fees/ Salaries | Director fees | Total |
|----------------------------------|------------------------------|------------------|---------|
| A Lemon | 179,180 | - | 179,180 |
| W Dawes | 170,554 | - | 170,554 |
| D Linfield | - | 65,778 | 65,778 |

| | | | |
|-----------------------------------|----------------|----------------|----------------|
| S Muir | - | 18,750 | 18,750 |
| S Treacy* | - | 18,750 | 18,750 |
| R Sewell** | 51,683 | - | 51,683 |
| P Varris*** | - | - | - |
| S Motteram | - | - | - |
| Total key management compensation | <u>401,417</u> | <u>103,278</u> | <u>504,695</u> |

*paid to Zenith Advisory Services Pty Limited

**appointed 24 June 2022

***appointed 24 May 2023

(b) Other related-party transactions

Leo Mining and Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers, namely William Dawes, Alexander Lemon and Shaun Treacy. Leo Mining pays certain costs such as rental on behalf of Mkango. Mkango reimburses Leo Mining for these costs.

As of 30 September 2023, the Company owed Leo Mining an amount of \$8,999 (31 December 2022: (\$4,646)). The amount is unsecured and due on demand.

The amounts due to related parties were as follows:

| | 30 September 2023 | 31 December 2022 |
|---|--------------------------|-------------------------|
| Due to key management and directors | 6,250 | 186,426 |
| Due to related parties with common directors (Leo Mining) | <u>8,999</u> | <u>-</u> |
| Total due to related parties | <u><u>15,249</u></u> | <u><u>186,426</u></u> |

The amounts due from related parties were as follows:

| | 30 September 2023 | 31 December 2022 |
|---|--------------------------|-------------------------|
| Due from related parties with common directors (Leo Mining) | <u>-</u> | <u>4,646</u> |

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 30 September 2023 | 31 December 2022 |
|---------------------|--------------------------|-------------------------|
| Accounts payable | 103,771 | 574,068 |
| Other payables | 297,021 | 106,308 |
| Accrued liabilities | <u>59,099</u> | <u>92,869</u> |
| | <u><u>459,891</u></u> | <u><u>773,245</u></u> |

12. CONVERTIBLE LOAN NOTE

In the year ended 31 December 2022, Mkango issued convertible notes of 5% at a total value of \$1,856,130 (£1,547,500). The principal amount of the loan was repayable on 30 June 2024 or could be converted at any time into shares at the holder's option at the rate of \$0.33 (£0.27) per share. Accrued interest was repayable on 30 June 2024 or could be converted at any time into shares at the holder's option at the higher of \$0.33 (£0.27) or the closing share price on the date immediately preceding the date of conversion.

The convertible loan note was classified as a hybrid financial instrument, being a debt host instrument with an embedded derivative liability. The conversion feature meets the definition of a financial liability as per International Accounting Standard 32 as it is a derivative contract that may be settled other than by the exchange of fixed amount of cash for a fixed number of the entity's own equity instruments.

The value of the derivative liability component and the host liability were determined at the date the instrument was issued. The fair value of the derivative liability component at inception and year end was calculated using the

Black-Scholes model. The derivative liability component is a financial liability measured at fair value through profit or loss. The liability component is a financial liability measured at amortised cost.

On 6 February 2023, CoTec invested an additional £452,500 (\$517,019) for an aggregate investment of £2,000,000 (\$2,471,600) by way of a convertible loan to Mkango, bearing 5% interest, compounded annually. On this day, all previous convertible notes issued by Mkango to CoTec were superseded. Furthermore, the previous embedded derivative was derecognized and a new one was recognized. The Convertible Loan is secured over the shares held by Mkango in Maginito. The CoTec Convertible Loan could also be converted by CoTec, at its option, into 10.6% of the shares of Maginito.

On 29 September 2023, CoTec converted the outstanding loan into 10.6% of the shares of Maginito.

Old convertible loan note

| | 30 September 2023 | 31 December 2022 |
|----------------------------|--------------------------|-------------------------|
| Opening balance | 1,603,696 | - |
| Received during the period | - | 1,603,696 |
| Derecognised | <u>(1,603,696)</u> | <u>-</u> |
| Closing balance | <u>-</u> | <u>1,603,696</u> |

New convertible loan note

| | 30 September 2023 | 31 December 2022 |
|----------------------------|--------------------------|-------------------------|
| Opening balance | - | - |
| Received during the period | 1,828,257 | - |
| Conversion | <u>(1,828,257)</u> | <u>-</u> |
| Closing balance | <u>-</u> | <u>-</u> |

13. DERIVATIVE LIABILITY MEASURED AT FAIR VALUE

The derivative liability component of the convertible loan note in Note 12 was measured at fair value and was measured at Level 3. The fair value of this financial instrument was determined using Black-Scholes.

On 29 September 2023, CoTec converted the outstanding loan into 10.6% of the shares of Maginito. As such, both the convertible loan note and the derivative liability balances were transferred to non-controlling interest.

Old derivative liability

| | Level 3 | |
|--|--------------------------|-------------------------|
| | 30 September 2023 | 31 December 2022 |
| Opening balance | 129,650 | - |
| Derecognised through fair value in profit and loss | (129,650) | - |
| Recognised at inception – new embedded derivative | - | 252,434 |
| Fair value adjustment | <u>-</u> | <u>(122,784)</u> |
| Closing balance | <u>-</u> | <u>129,650</u> |

New derivative liability

| | Level 3 | |
|---|--------------------------|-------------------------|
| | 30 September 2023 | 31 December 2022 |
| Opening balance | - | - |
| Recognised at inception – new embedded derivative | 782,009 | - |
| Fair value adjustment | (326,240) | - |
| Conversion | <u>(455,769)</u> | <u>-</u> |

| | | |
|------------------------|---|---|
| Closing balance | <u> </u> <u> </u> - | <u> </u> <u> </u> - |
|------------------------|---|---|

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

| | | | |
|----------------------------------|-----------------------|--------------------------------|------------------------------|
| As at 30 September 2023 | Up to 3 months | Between 3 and 12 months | Between 1 and 2 years |
| Derivative financial liabilities | - | - | - |
| As at 31 December 2022 | Up to 3 months | Between 3 and 12 months | Between 1 and 2 years |
| Derivative financial liabilities | - | - | 129,650 |

14. SHARE CAPITAL

(a) Common shares

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

| | Ref | Number | Amount (\$) |
|--|------------|---------------------------|--------------------------|
| Closing balance 31 December 2021 | | <u>214,581,548</u> | <u>38,148,271</u> |
| Issued in exchange for services | (i) | 625,000 | 228,546 |
| Closing balance 31 December 2022 | | <u>215,206,548</u> | <u>38,376,817</u> |
| Issued for cash | (ii) | 28,000,000 | 4,214,601 |
| Share issue expenses | (ii) | - | (283,708) |
| Issued in exchange for services | (iii) | 224,317 | 34,000 |
| Issued to HyProMag sellers | (iv) | 9,742,031 | 1,145,424 |
| Issued in exchange for services | (v) | 280,678 | 35,000 |
| Closing balance 30 September 2023 | | <u>253,453,574</u> | <u>43,522,134</u> |

- (i) On 10 March 2022, 625,000 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 18 December 2020 to 18 December 2021. An amount of \$228,546 was credited to share capital.
- (ii) On 13 February 2023, Mkango raised gross proceeds of £3.5 million (approximately \$4.2 million) via a placing and subscription totalling 28,000,000 placing shares at a price of 12.5p per share. The net proceeds were £3.3 million (approximately \$4 million).
- (iii) On 2 May 2023, 224,317 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 23 January 2023 to 31 March 2023. An amount of \$34,000 was credited to share capital.
- (iv) On 2 August 2023, 9,742,031 common shares of the Company were issued to the HyProMag sellers as part consideration for the acquisition of the remaining 58% of the share capital of HyProMag Limited.
- (v) On 25 August 2023, 280,678 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 1 April 2023 to 30 June 2023. An amount of \$35,000 was credited to share capital.

(b) Share-based payments

(i) Stock options

The Company has a rolling stock option plan (the "Plan") established to recognise 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 recognised in respect of stock options in the consolidated statements of comprehensive loss for the nine months ended 30 September 2023 is \$287,492 (30 September 2022: \$758,389). The stock options pursuant to the Plan vest over a term of 18 - 24 months.

On 30 May 2023, the Company granted 3,350,000 stock options to directors, officers, employees and consultants of the Company. The Options have an exercise price of C\$0.2025 (\$0.153) per common share. The options will vest over the next two years and are valid for a period of ten years from the date of the grant. Furthermore, certain options will, subject to certain exceptions, only vest if the Company has finalized the Mining Development Agreement (“MDA”) in Malawi and secured the mining license for the Songwe Hill rare earths project.

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

| As at 31 December 2022 | | Options | Weighted-average exercise price (USD) |
|-------------------------------|--|-------------------|--|
| Opening | | 15,850,000 | 0.18 |
| Exercised | | - | - |
| Granted - September 8, 2022 | | 350,000 | 0.14 |
| Total options | | <u>16,200,000</u> | <u>0.16</u> |
| Vested options | | 15,045,000 | 0.15 |

| As at 30 September 2023 | | Options | Weighted-average exercise price (USD) |
|--------------------------------|--|-------------------|--|
| Opening | | 16,200,000 | 0.06 |
| Exercised | | - | - |
| Granted | | 3,350,000 | 0.15 |
| Total options | | <u>19,550,000</u> | <u>0.16</u> |
| Vested options | | 15,201,250 | 0.16 |

The following provides a summary of the stock option plan as at 30 September 2023

| <i>Range of exercise price (USD)</i> | <i>Number outstanding</i> | <i>Weighted-average remaining contractual life (years)</i> | <i>Weighted-average exercise price (USD)</i> | <i>Number exercisable</i> |
|--------------------------------------|---------------------------|--|--|---------------------------|
| 0.04 - 0.37 | 19,550,000 | 6.09 | 0.16 | 15,201,250 |

The following provides a summary of the stock option plan as at 31 December 2022

| <i>Range of exercise price (USD)</i> | <i>Number outstanding</i> | <i>Weighted-average remaining contractual life (years)</i> | <i>Weighted-average exercise price (USD)</i> | <i>Number exercisable</i> |
|--------------------------------------|---------------------------|--|--|---------------------------|
| 0.04 - 0.37 | 16,200,000 | 6.10 | 0.16 | 15,045,000 |

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the options that were issued on 30 May 2023 and 8 September 2022:

| | 30 May 2023 | 8 Sep 2022 |
|---|--------------------|-------------------|
| Risk-free interest rate (%) | 3.12 | 1.48 |
| Expected life (years) | 10 | 2.5 |
| Expected volatility (%) | 73.4% | 103% |
| Dividends (%) | Nil | Nil |
| Forfeiture rate (%) | 0% | 5% |
| Weighted average fair value at issuance (USD) | 0.12 | 0.10 |

(ii) Restricted Share Units (restated)

At 30 September 2023 the Company had 4,575,000 Restricted Share Units outstanding. The Restricted Share Units vest over a period of ten years. The Company has recognised a share-based payment charge of \$114,025 (30 September 2022 (restated): \$116,599) during the 9-month period ending 30 September 2023.

(c) **Broker warrants**

On 27 February 2023, the Company issued 1,400,000 non-transferable warrants to the brokers who advised in connection with the Placing. Each warrant is exercisable for a period of 12 months with an exercise price of £0.125 (\$0.151) per warrant. The Company has recognised a share-based payment charge of \$37,850 (31 March 2022: \$Nil) during the 9-month period ending 30 September 2023.

The following provides a summary of the Company's outstanding broker warrants as at 30 September 2023:

| <i>Range of exercise price</i> | <i>Number outstanding</i> | <i>Weighted-average remaining contractual life (years)</i> | <i>Weighted-average exercise price</i> |
|--------------------------------|---------------------------|--|--|
| 0.151 | 1,400,000 | 0.41 | 0.151 |

The fair value of each share-based payment warrant granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the warrants that were issued on 27 February 2023:

| | 27 Feb 2023 |
|---|--------------------|
| Risk-free interest rate (%) | 3.12 |
| Expected life (years) | 1 |
| Expected volatility (%) | 73.4 |
| Dividends (%) | Nil |
| Weighted average fair value at issuance (USD) | 0.046 |

At 31 December 2022 there were no outstanding broker warrants.

(d) **Reserves**

Share capital - ordinary shares are classified as equity; incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

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

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

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

Non-controlling interest – this represents minority shareholders interest in the net assets of the Group.

15. FINANCIAL INSTRUMENTS

Determination of fair values

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

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

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

The financial assets and liabilities that are measured and recognised in the consolidated statements of financial position at fair value on a recurring basis were categorised into the fair-value hierarchy levels as follows:

| | Level 1 | Level 2 | Level 3 |
|---|----------------|----------------|----------------|
| Equity option* | - | - | - |
| Derivative liability (convertible note) (Note 12) | - | - | - |
| Balance 30 September 2023 | <u>-</u> | <u>-</u> | <u>-</u> |

| | Level 1 | Level 2 | Level 3 |
|---|----------------|----------------|----------------|
| Equity option* | - | - | 8,723 |
| Derivative liability (convertible note) (Note 12) | - | - | 129,650 |
| Balance 31 December 2022 | <u>-</u> | <u>-</u> | <u>138,373</u> |

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

Financial risk management

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

Foreign currency risk

The functional and presentation currency of the Company is the US dollar. The Company enters into transactions denominated in the CAD, the US dollar, the Euro, the GBP, the Australian dollar, the South African Rand and Malawian Kwacha. The Company raises its equity in the CAD, and the GBP, and then purchases the US dollar, the Australian dollar, the South African Rand, the Euro and the Malawian Kwacha to settle liabilities. The Company minimizes exposure to foreign exchange loss by converting funds to the appropriate currencies upon receipt of funding based on the expected use of the various foreign currencies. The Company's exposure to foreign currency risk as at 30 September 2023 and 31 December 2022, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

| | 30 September 2023 | 31 December 2022 |
|----------------------|--------------------------|-------------------------|
| Cash: | | |
| Canadian Dollar | 863 | 465 |
| United States Dollar | 11,101 | 937 |
| Pound Sterling | 1,921,577 | 391,040 |
| Euro | 344,743 | 96,989 |
| Malawian Kwacha | 1,406 | 3,966 |
| Australian Dollar | 76 | 306 |
| | <u>2,279,766</u> | <u>493,703</u> |

A 5% reduction in the value of the CAD, Euro, GBP, MWK and AUD in comparison to the USD would cause a change in net loss of approximately \$113,433 (31 December 2022: \$24,638).

Interest-rate risk

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

The Company's principal financial liability is the debt component of the convertible loan note with CoTec. The interest rate exposure on the debt component is limited as the interest rate is limited given the coupon rate linked to the convertible loan is fixed at 5%.

Liquidity risk

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

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

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

The following table outlines the maturities of the Company's financial liabilities as at 30 September 2023:

| | Contractual Cash Flows | Less than 1 Year | Greater than 1 Year |
|--|------------------------|------------------|---------------------|
| Accounts payable and accrued liabilities | 459,893 | 459,893 | - |
| Due to related parties | 15,249 | 15,249 | - |

The following table outlines the maturities of the Company's financial liabilities as at 31 December 2022:

| | Contractual Cash Flows | Less than 1 Year | Greater than 1 Year |
|--|------------------------|------------------|---------------------|
| Accounts payable and accrued liabilities | 773,245 | 773,245 | - |
| Due to related parties | 186,426 | 186,426 | - |

Credit risk

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

Financial instruments by category

Financial Assets

| | Fair value through profit or loss | | Amortised cost | |
|-------------------------------|-----------------------------------|---------------------|----------------------|---------------------|
| | 30 September 2023 | 31 December 2022 | 30 September 2023 | 31 December 2022 |
| Cash | - | - | 2,279,766 | 493,703 |
| Receivables | - | - | 4,012 | 28,803 |
| Total financial assets | - | - | 2,283,778 | 522,506 |

Financial liabilities

| | | | | |
|------------------------------------|----------|----------------|----------------|------------------|
| Trade and other payables | - | - | 475,142 | 959,671 |
| Loans and borrowings | - | - | - | 1,603,696 |
| Derivatives | - | 129,650 | - | - |
| Total financial liabilities | - | 129,650 | 475,142 | 2,563,367 |

16. COMMITMENTS

The Company was first granted the Phalombe Licence for the Songwe property on 21 January 2010. The licence was issued by the Government of Malawi on an initial three-year basis. The licence was subsequently renewed every two years and was renewed for a third time on 21 January 2019. The future spending commitments for the exploration rights with the Government of Malawi were 150,000,000 Kwacha (\$145,452) over two years, which have been met. On 1 June 2021 the Phalombe Licence was transferred into 11 retention licences covering a total of 250 sq km. Each retention licence is for a five-year period from 1 June 2021.

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

On 10 November 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in the Chimimbe Hill area, Mchinji District, Malawi. The licence was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The commitment for exploration expenses with the Government of Malawi under the licence is 25,000,000 Kwacha (\$24,242) over three years which had been met. The licence is currently in the process of being renewed and is in good standing.

On 13 May 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in Mchinji District, Malawi. The licence was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The licence is in good standing and has been renewed for a further two years from 13 May 2022.

The Company continues to meet the terms and conditions of its exploration licences and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programmes.

17. LOSS PER SHARE

The calculation of basic earnings per share at 30 September 2023 was based on the loss attributable to ordinary shareholders of \$3,128,970 (30 September 2022 (restated): loss \$5,322,876) and a weighted average number of ordinary shares outstanding during the 9 months ended 30 September 2023 of 237,257,830 (30 September 2022: 215,048,581) calculated as follows:

| | 30 September 2023 | 30 September 2022 (restated) |
|--|-------------------|---------------------------------|
| Loss attributable to the ordinary shareholders (USD) | (3,128,970) | (5,322,876) |
| Number of ordinary shares outstanding at beginning of year | 215,206,548 | 214,581,548 |
| Effect of shares issued during the period | 22,051,282 | 467,033 |
| Weighted average number of ordinary shares outstanding | 237,257,830 | 215,048,581 |
| Loss per share (USD) | (0.013) | (0.025) |

18. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of \$5,494,500 as at 30 September 2023 (31 December 2022: \$(1,166,116)).

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 optimises the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company has no externally imposed capital requirements.

19. SUBSEQUENT EVENTS

There are no subsequent events.