MKANGO RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

This Management's Discussion and Analysis ("**MD&A**") provides a review of the operational performance of Mkango Resources Ltd. ("**Mkango**", and collectively with its subsidiaries, or the "**Company**"). The report was prepared in accordance with the requirements of National Instrument 51-102, Continuous Disclosure Obligations, and it should be read in conjunction with the consolidated audited financial statements and accompanying notes for the years ended December 31, 2017 (the "**Financial Statements**") and the corresponding notes to the Financial Statements which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and are prepared in United States dollars unless otherwise stated. This document is dated April 11, 2018.

The Board of Directors of the Company have reviewed and approved the information contained in this MD&A and the Financial Statements.

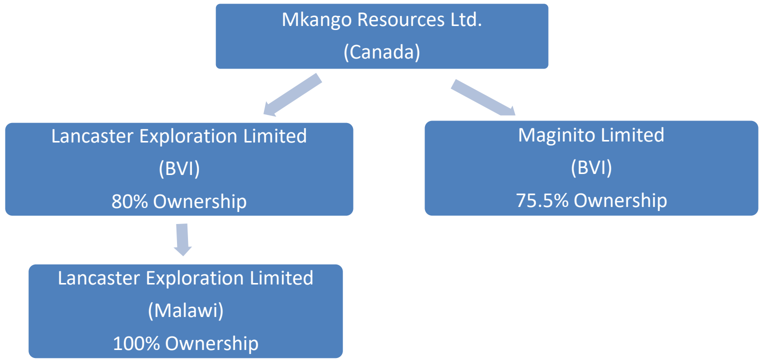
Readers are cautioned that this MD&A contains certain forward-looking statements. Please see the section concerning "Forward Looking Statements" below.

Additional information relating to the Company can be found on the Canadian System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. The Company is listed on the TSX Venture Exchange the "**TSX-V**") and holds an additional listing on the AIM Market of the London Stock Exchange ("**AIM**") under the symbol MKA.

FORWARD LOOKING STATEMENTS

Certain disclosures set forth in this MD&A may constitute forward-looking statements concerning anticipated development of the Company's operations in future periods. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, including statements regarding exploration results and budgets, mineral resource estimates, work programs, capital expenditures, timelines, strategic plans, market price of commodities or other statements that are not statement of fact may constitute forward-looking information under securities laws. Forward-looking information is based on reasonable assumptions that have been made by the Company as at the date of such information but, by their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general economic and political conditions, industry conditions, volatility of commodity prices, currency fluctuations, accuracy of current drill and other exploration results, realization of mineral resource estimates, environmental risks, changes in environmental, tax and royalty legislation or other government regulation, the speculative nature of strategic metal exploration and development including the risks of contests over title to properties, the risks associated with obtaining necessary licences or permits, including and not limited to approval of any future mining licence applications and exploration licence extensions, operating or technical difficulties in connection with development activities; personnel relations, competition from other industry participants, the lack of availability of qualified personnel or management, availability of drilling equipment and access, stock market volatility, the ability to access sufficient capital from internal and external sources and the completion of the transaction involving Talaxis Limited ("**Talaxis**") pursuant to the Agreement (as defined below). The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Forward-looking statements are based on assumptions management believes to be reasonable, including but not limited to the price of rare earth elements ("**REEs**" or "**rare earths**"); the demand for REEs; the ability to carry on exploration and development activities; the timely receipt of any required approvals; the ability to obtain qualified personnel, equipment and services in a timely and cost-efficient manner; the ability to operate in a safe, efficient and effective manner; and the regulatory framework including and not limited to licence approvals, social and environmental matters, and such other assumptions and factors as set out herein. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Mkango's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or, if any of them do so, what benefits that the Company will derive there from. Mkango disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

COMPANY OVERVIEW



Mkango is an exploration and development company focused on rare earths and associated minerals with properties in the Republic of Malawi, Africa, specifically at the Songwe Hill rare earths project ("**Songwe Hill**") within the Phalombe exploration licence (the "**Phalombe Licence**"), the Thambani exploration licence ("**Thambani Licence**") and the Chimimbe Hill exploration licence ("**Chimimbe Licence**"). The Company is incorporated in Canada. Its registered office is 706 27 Avenue NW, Calgary, Alberta, Canada.

The Phalombe Licence, the Thambani Licence and the Chimimbe Licence are held by Lancaster (BVI) ("**Lancaster**"), a company incorporated under the laws of the British Virgin Islands. Lancaster is 80% held by Mkango and 20% held by Talaxis, a wholly owned subsidiary of Noble Group Limited. While the Thambani Licence and the Chimimbe Licence are held by Lancaster, 100% of each licence is held in trust for Mkango.

Subsequent to year-end, Maginito Limited ("**Maginito**") was incorporated under the laws of the British Virgin Islands ("**BVI**"). Maginito is 75.5% owned by Mkango and 24.5% owned by Talaxis. Maginito is focused on downstream opportunities relating to the rare earths supply chain, in particular neodymium alloy powders, magnet and other technologies geared to accelerating growth in the electric vehicle market. This includes the collaboration with Metalysis Limited ("**Metalysis**") discussed below.

The Company's core strategy is to advance the Songwe Hill project through the feasibility and development phases whilst in parallel advancing complementary downstream opportunities in the rare earths supply chain through Maginito, both in partnership with Talaxis. The current work programme for Songwe Hill is focused on completing a feasibility study (the "**Feasibility Study**"), the initial phases of which include a major diamond drilling programme and publication of an updated mineral resource estimate, in addition to metallurgical optimisation and work in relation to the ongoing environmental, social and health impact assessment.

OVERALL PERFORMANCE AND OUTLOOK

During 2017, the Company was focused on advancing the Songwe Hill rare earth project in addition to its other projects in Malawi and downstream opportunities relating to the rare earth supply chain in order to better position the company for partnership and joint venture opportunities.

In March 2017, Mkango entered into a Memorandum of Understanding ("**MOU**") with Metalysis to jointly research, develop and commercialise novel rare earth metal alloys for use in permanent magnets. In September 2017, Mkango and Metalysis signed a joint venture principles and exclusivity agreement (the "**Metalysis Agreement**") for the development of advanced alloys using neodymium or praseodymium with other elements for use in permanent magnets. This includes joint venture principles for a joint venture (the "**Metalysis Joint Venture**") to commercialise intellectual property rights for the production of neodymium or praseodymium alloy powders. Under the Metalysis Agreement, Maginito will hold an 85% interest in the Metalysis Joint Venture and Metalysis would receive a 15% free carried interest. At the same time, Mkango announced a transaction with Talaxis, a wholly owned subsidiary of Noble Group Limited, whereby Talaxis would invest £500,000 in Mkango by means of a placing. The placing closed in October 2017 with Talaxis then holding a 14.5% interest in Mkango.

In November of 2017, Mkango announced a further transaction with Talaxis (the "**Talaxis Agreement**"), whereby Talaxis will make investments totalling £12 million (US$17 million) in Lancaster to fund a Feasibility Study for

Songwe Hill, with an option to fund project development, and a further investments totalling £2 million (US$2.8 million) in Maginito to further advance its downstream strategy, including the collaboration with Metalysis.

On January 28, 2018, in accordance with the terms of the Talaxis Agreement, Talaxis invested an initial £5 million (US$7 million) for a 20% interest in Lancaster and a further £1 million (US$1.4 million) for a 24.5% interest in Maginito.

The funds invested in Lancaster will be used for the initial phase of the Feasibility Study comprising a major diamond drilling programme which will culminate in an updated 43-101 compliant mineral resource estimate for Songwe Hill, in addition to metallurgical optimisation and work in relation to the ongoing environmental, social and health impact assessment. Subject to the completion of a definitive Joint Venture Agreement with Mkango and the publication of the updated mineral resource estimate, Talaxis will invest a further £7 million (US$9.8 million) for an additional 29% interest in Lancaster to fully fund the completion of the Feasibility Study.

Subject to completion of the definitive Joint Venture Agreement, Talaxis will be granted an option to acquire a further 26% interest in Lancaster by arranging funding for project development including funding the equity component thereof. If Talaxis exercises its option, Mkango will retain a 25% interest in Lancaster which will be free carried to production.

The funds invested in Maginito by Talaxis will be used to advance complementary downstream opportunities in the rare earths supply chain in particular new rare earth alloy, magnet and other technologies geared to accelerating growth in the electric vehicle market, including the Metalysis Joint Venture.

Talaxis will invest a further £1 million in Maginito to acquire an additional 24.5% interest in Maginito conditional on completion of a definitive Investment Agreement in respect of Maginito and successful completion of the Phase II R&D programme with Metalysis. Upon completion of the investments, Mkango will hold a 51% interest in Maginito.

Following the Talaxis investments, Mkango is now well positioned to advance its projects through the feasibility and development phases against the backdrop of increasing demand for rare earths used in electric vehicles, direct drive wind turbines and other green technologies. The initial phases of the Feasibility Study are underway.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

During the 2017 financial year, the Company's operations were primarily focused on exploration and development of mineral projects in Malawi, in particular the Songwe Hill project. Information discussed herein reflects the Company as a consolidated entity.

FINANCIAL POSITION

The following financial data is derived from the Company's Financial Statements as at December 31, 2017, 2016 and 2015:

	Years ended December 31,		
	2017	2016	2015
Total assets	997,869	980,430	252,935
Total non-current liabilities	1,698,267	1,252,464	609,700
Deficiency	(1,253,363)	(441,626)	(731,812)

Total assets

The $17,439 increase from 2016 to 2017 for total assets is primarily due to a $302,598 increase in cash, a $276,361 increase in accounts receivable offset by a decrease of $555,120 for subscription receivable. The increase in cash was due to the October 26, 2017 close of the placement and the cash received due to the exercise of warrants on November 24, 2017 and December 14, 2017. The increase in accounts receivables was due to the anticipated recovery of exploration costs as well as amounts due from Canada Revenue Agency for goods and services taxes. The subscription receivable decreased in 2017 because the funds were received in January 2017 for the placement, which closed on December 30, 2016.

The $727,495 increase from 2015 to 2016 for total assets is primarily due to the $180,517 increase in cash and the $555,120 increase in subscriptions receivable. Both assets increased as a result of the placements, which closed on June 15, 2016 and December 30, 2016 whereby a total of $1,973,320 in gross receipts were received. In comparison, the Company raised gross receipts of $863,824 from placements which closed on July 31, 2015 and October 20, 2015. In comparison, the Company received $1,109,496 more in gross receipts during 2016 than during 2015.

Total non-current liabilities

The $445,803 increase from 2016 to 2017 for total liabilities is due to a $688,900 increase in the valuation of the Company's outstanding warrants held by shareholders offset by a reduction of $243,097 in amounts due to related parties. The increase in the outstanding warrants valuation was due to an increase in the Company's share price volatility and an increase in the Company's share price. The share price was C$0.11 at the close of 2017 compared to C$0.06 at the close of 2016. These two factors resulted in a higher Black-Scholes valuation for the Company's outstanding warrants. The amount due to related parties was reclassified from long term to short term liabilities. During 2016 and 2017, two officers of the Company deferred payment of their consulting fees to conserve cash.

The $642,764 increase from 2015 to 2016 for total liabilities is primarily due to a $399,667 increase in the warrants fair value for the year ended December 31, 2016 as compared to the year ended December 31, 2015 and the recognition of $243,097 due to related parties. During 2016, two officers of the Company deferred payment of their consulting fees to conserve cash.

Total deficiency

The deficiency increased by $811,737 from 2016 to 2017, which is primarily due to the $2,529,181 net comprehensive loss recognized for the year ended December 31, 2017 (2016 – $856,908). The loss was offset by a $1,329,604 increase in share capital and a $387,695 increase in contributed surplus. Share capital increased as a result of the placement which closed October 26, 2017 and the exercise of warrants during November and December 2017. The contributed surplus increased as a result of the recognition of share based compensation expense, the issuance of advisory warrants in connection with the close of the October 26, 2017 placement and the exercise of warrants during November and December 2017.

Total deficiency decreased by $290,186 from 2016 to 2017 primarily due to a $614,370 increase in the value of share capital offset by the $856,645 change in the deficit, which results in a net change of $324,184 when adjusted for the change in contributed surplus.

SUMMARY RESULTS OF OPERATIONS

The selected period information and summary of financial results in this MD&A should be read in conjunction with the Company's Financial Statements for the years ended December 31, 2017, 2016 and 2015. The following financial data is derived from the Company's Financial Statements as at December 31, 2017, 2016 and 2015:

	Years ended December 31,		
	2017	2016	2015
Revenue	$ Nil	$ Nil	$ Nil
Mineral exploration	243,329	105,557	133,949
Other expenditures*	2,285,852	751,351	396,345
Net comprehensive income (loss)	$ (2,529,181)	$ (856,908)	$ 530,294
Basic and diluted income (loss) per share	$ (0.029)	$ (0.010)	$ 0.010
Weighted average number of common shares used in the calculation of income (loss) per share (basic and diluted)	86,996,808	57,157,323	89,787,915
Distributions or Dividends	$ Nil	$ Nil	$ Nil

** Other expenditures represents all other expenditures, other than Mineral exploration expenditures, disclosed in the statement of operations and includes $1,500,305 of non-cash items.*

The comprehensive loss for the year ended December 31, 2017 was $2,529,181 compared to a loss for the year ended December 31, 2016 of $856,908. The significant items contributing to the year ended December 31, 2017 loss includes mineral exploration costs of $243,329 (2016 – $105,557), consulting fees $97,491 (2016 – $338,074), Director's salaries $217,735 (2016 - $225,849), audit and legal fees of $64,922 (2016 – $40,841)), office costs of $201,872 (2016 – $65,060), travel costs of $25,887 (2016 - $9,232) and shareholder compliance and investor relations costs of $129,340 (2016 – $88,153). During 2017 the Company's management team was focused on engaging with potential strategic partners to invest in the Songwe Hill project, which culminated in the transaction with Talaxis. Legal, travel and investor relation costs were higher as a result of this strategic focus.

The 2017 loss was increased by non-cash items, which included a loss on the revaluation of the Company's outstanding warrants $936,485 (2016 – gain $582,539), the share based compensation costs of $402,120 (2016 – $494,710) and a foreign exchange loss of $102,581 (2016 – gain $79,858).

The comprehensive loss for the year ended December 31, 2016 was $856,908 compared to an income for the year ended December 31, 2015 of $530,294. The significant items contributing to the $1,387,202 increase in loss for the year ended December 31, 2016 is primarily due to the fair value change in the Company's outstanding warrants $708,361, the increase in stock option expense $386,268 and the increase in AIM market listing expenses of $451,596.

DISCUSSION OF OPERATIONS

Lancaster (of which Mkango holds 80%) holds a 100% interest in three exclusive prospecting licences in southern Malawi, the Phalombe Licence, the Thambani Licence and the Chimimbe Licence. Pursuant to the Talaxis Agreement, Talaxis has agreed to fund the development of Songwe Hill, the main exploration target within the Phalombe Licence. Lancaster holds 100% of the Thambani Licence and the Chimimbe Licence in trust for Mkango.

Songwe Hill, which features carbonatite hosted rare earth mineralisation, was subject to previous exploration in the late 1980s. Mkango completed an updated pre-feasibility study for the project in November 2015.

The main exploration targets in the Thambani Licence are uranium, niobium and tantalum. In May 2017, the company announced results from recent sampling at Thambani. Assay results from 85 rock grab samples returned high grade uranium, tantalum and niobium values, ranging up to 3.3 % U_3O_8, 1.9 % Ta_2O_5 and 6.0 % Nb_2O_5. 35 of the samples graded above 500ppm U_3O_8 and 24 graded above 1,000ppm U_3O_8.

The main exploration targets in the Chimimbe Licence are nickel and cobalt.

Mkango also holds a 75.5% interest in Maginito. discussed above.

1. SONGWE HILL

The Phalombe Licence covers an area of 849.1 square kilometers ("sq km") in southeast Malawi. The main exploration target in the licence are is Songwe Hill, which features carbonatite hosted rare earth mineralization and was subject to previous exploration programs in the late 1980s. Lancaster was awarded the licence on January 21, 2010.

The licence was issued by the Malawi Government on a three-year basis, originally, and has subsequently been renewed with the most recent renewal on January 21, 2017 for a further 2 years to January 21, 2019. In connection with the January 21, 2017 renewal, the Company requested that the licence area be reduced to the current area of 849.1 sq km.

Management believes that all necessary permits for Lancaster's current phase of the exploration program have been obtained.

Songwe is accessible by road from Zomba, the former capital, and Blantyre, the principal commercial town of Malawi. Total travel time from Zomba is approximately 2 hours, which will reduce as infrastructure continues to be upgraded in the area. Songwe is a volcanic vent that is expressed as a steep-sided hill rising some 230m above the surrounding plain.

The drilling programs, completed in 2011 and 2012, focused on an area measuring approximately 350 by 100 meters comprising rare earth enriched carbonatite, carbonatite breccia and fenite lithologies, largely exposed at surface. A total of 25 holes were completed in the 2012 Stage 2 program for a total of approximately 4,860 meters to a maximum vertical depth of approximately 350 meters. The Stage 2 program was designed to complement the 13-hole, 2,000 meter Stage 1 drilling program and systematic channel sampling completed in 2011.

On November 22, 2012, Mkango filed a Technical Report (the "Report") for its maiden NI 43-101 mineral resource estimate entitled, *NI 43-101 Technical Report and Mineral Resource Estimate for the Songwe Hill Rare Earth Element (REE) Project, Phalombe District, Republic of Malawi*, authored by Scott Swinden, PhD, PGeo and Michael Hall, Pr.Sci.Nat., MAusIMM. The Report's mineral resource estimates, as previously announced, are summarized below. For further details of the mineral resource estimates including breakdowns thereof, please refer to the Report, which is available at www.sedar.com.

Cut-off grade	*In-situ* Indicated Mineral Resource estimate	*In-situ* Inferred Mineral Resource estimate
1.0% TREO	13.2 mt grading 1.62% TREO	18.6 mt grading 1.38% TREO
1.5% TREO	6.2 mt grading 2.05% TREO	5.1 mt grading 1.83% TREO

TREO – total rare earth oxides including yttrium. In-situ - no geological losses applied. mt - million tonnes

On July 10, 2013, the Company announced a base case metallurgical flow sheet for the Songwe Hill rare earth project and that proof of concept test work on a bench scale had demonstrated that the flow sheet has potential to produce a high grade mixed rare earth carbonate or hydroxide product.

During the year ending December 31, 2013, the Company was focused on scoping metallurgical test work, environmental studies and commencement of the pre-feasibility study, in addition to regional exploration.

During the year ended December 31, 2014, the Company continued to progress the environmental and social impact studies, flow sheet optimization and metallurgical test work, process plant engineering design work, mining studies and other activities related to the pre-feasibility study. This culminated in the Company announcing the results of the pre-feasibility study on September 23, 2014. The pre-feasibility study (as updated, the "Pre-feasibility Study") was subsequently updated on 1 December, 2015, with the results announced on November 9, 2015.

The "Pre-feasibility Study" indicates a US$345 million after-tax net present value (NPV), using a 10% nominal discount rate, and 37% after-tax internal rate of return (IRR) for the Songwe Hill Rare Earth Project (the "Project"), based on rare earth oxide (REO) prices equivalent to a total rare earth basket price of US$59.8 per kg REO. The basket price reflects the selective removal of a large proportion of the cerium during the hydrometallurgical process, which enhances the value of the product mix. For further information, please refer to the study, which is available at www.sedar.com.

Initial capital expenditure (Capex) of US$216m, including a contingency of US$20m, is among the lowest in the rare earth sector.

Cash operating costs average US$13.0 per kg REO for the first 5 years of production and US$16.4 per kg REO for the life of mine. The Study assumes an additional cost of US$10.0 per kg REO to account for the cost or discount associated with toll separation or the sale of a mixed chemical concentrate.

The Study is based on an open pit operation, using contract mining, with a mine life of 18 years commencing in 2018. There is potential to significantly expand production or the mine life and for a lower strip ratio given the large additional Inferred Resource and potential to expand the Mineral Resource.

This first phase of development envisages production of a high grade, cerium depleted, purified chemical concentrate for toll treatment or sale, with annual production of approximately 2,840 tonnes per year of REO in concentrate.

Based on the input parameters in the updated Study the Probable Mineral Reserve Estimate remains unchanged at 8.5 million tonnes grading 1.60% TREO using a cut-off grade of 1.0% TREO as reported in September 2014.

On July 26, 2016, Mkango announced that it has secured a two-year exclusive option and right to acquire, on commercially standard terms, the worldwide licence for a technology to produce high strength (up to 30%) hydrochloric acid ("**HCL**") from calcium chloride feed streams (the "**Technology**") using sulphuric acid, applicable in rare earths processing and other potential industrial applications. The Technology has been developed by Dr. Thomas Feldmann and Professor George Demopoulos of McGill University in Montreal, Canada.

Mkango's processing flowsheet for Songwe incorporates a HCL gangue leach step, producing calcium chloride in solution. The HCL will be regenerated using the calcium chloride feed stream, supplemented with additional calcium chloride, together with sulphuric acid produced from sulphur at a plant on-site. This means that the import of large quantities of liquid HCL will not be required, effectively being replaced by the import of solid sulphur and calcium chloride, therefore bringing significant potential cost and logistical benefits. The production of a gypsum by-product for sale in Malawi and elsewhere will also be investigated.

On August 9, 2016, Mkango announced the results of the airborne geophysical survey (the "**Survey**") covering approximately two thirds of its Phalombe licence. The Survey was part of a US$25 million World Bank funded nationwide airborne geophysical programme. The airborne radiometric survey highlights a number of exploration targets within the Phalombe licence. The Songwe Hill rare earths project was not covered by the Survey.

Apart from Songwe, there are two other identified vent systems in the Phalombe licence, Nkalonje and Namangale. In both cases, the Survey indicates strong thorium radiometric anomalies coincident with the vents, which, similar to Songwe, are expressed as steep hills rising above the surrounding plain. Thorium radiometrics are known as a highly effective tool for rare earths exploration and the Songwe Hill carbonatite is also characterized by a thorium radiometric anomaly, identified through previous geophysical surveys. Unlike Songwe Hill, the Nkalonje and Namangale vent systems do not feature large areas of outcropping carbonatite, the host rock for rare earths at Songwe Hill. However, both contain outcrops of carbonatite veins and dykes suggesting that there may be potential for a carbonatite body below surface. Other prospects within the Phalombe licence include the Mantrap and Knoll prospects.

A map showing the thorium radiometric anomalies superimposed on a topographic map, indicating local infrastructure, and the locations of Nkalonje and Namangale can be accessed via the following link: http://www.mkango.ca/i/maps/Results-of-Airborne-Radiometric-Survey-(Th)-on-Topo-Aug.jpg.

In 2016, Songwe and the Nkalonje, Mantrap and Knoll prospects were visited by a large delegation of international and Malawian geology and geophysics experts in connection with the €5.4 million HiTech AlkCarb research project led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation program in which the Company (through Lancaster) is an industry partner. The scope of the research project encompasses building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and downhole data. Of particular relevance to Mkango is the opportunity to better understand the potential for large but unexposed mineralised bodies of carbonatite (the host rock for rare earth mineralisation) on either a prospect or regional scale.

Based on work to date, the highest priority of such targets within the Phalombe Licence include the summit of Songwe Hill (which lies outside and to the south of the Indicated and Inferred Mineral Resource Estimate at Songwe) and the abovementioned Nkalonje vent system, where, in both cases outcrop is largely fenite (altered country rock) with occasional carbonatite, but there may be potential for underlying and larger zones of mineralised carbonatite. Rare earth mineralisation and mineral assemblages for both the fenite and carbonatite are being evaluated in the context of the geophysics covering the areas, to further assess their potential as future drill targets.

Following receipt of £5 million (US$7 million) by Lancaster on January 24, 2018 pursuant to the transaction with Talaxis, Mkango commenced the Feasibility Study for Songwe Hill, the initial phases of which comprise an extensive diamond drilling programme, metallurgical optimisation and work in relation to the ongoing environmental, social and health impact assessment.

2. THAMBANI, MWANZA DISTRICT

Lancaster was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment on September 10, 2010 in respect of an area, which was originally 468 sq km² in Thambani, Mwanza District, Malawi. Exploration has identified a number of areas with potential for uranium, zircon, corundum and niobium.

The licence was originally issued by the Malawi Government on a three-year basis and was subsequently renewed on September 10, 2015, for an additional two year term when the Company requested a reduction in the licence area to the current 136.9 sq km. The licence has subsequently renewed for a further 2 years to September 8, 2019.

The exploration activities conducted during 2011 and 2012 included acquisition of Landsat7 and ASTER satellite imagery for the licence area, systematic ground radiometric surveys to confirm and detail previously-known airborne anomalies, reconnaissance geological mapping and litho-geochemical sampling programs. The work has identified a number of potential uranium targets over the Thambani Massif, which is mainly composed of nepheline syenite gneiss, forming two prominent ridges known as Thambani East Ridge and West Ridge. Historical airborne radiometric surveys and ground radiometric survey programs carried out by Mkango have revealed two distinct uranium anomalies occurring along the two ridges: A strong uranium anomaly, measuring approximately 3 km by 1.5 km, occurs along the length of the Thambani East Ridge with a north-south trend and a second uranium anomaly, measuring approximately 1.5 km by 0.4 km occurs on the West Ridge along the western contact of the nepheline syenite body with the eastern biotite-hornblende gneisses.

Initial results from follow up reconnaissance geochemical sampling conducted in 2013 returned locally anomalous uranium values, ranging up to 1,545 ppm U3O8, on both Thambani East Ridge and West Ridge. During the year ended December 31, 2014, the Company continued to progress the geological exploration studies on the Thambani project area, data analysis and geological modeling.

Mkango completed a trenching program across the Thambani Massif primarily focused on two sites of historical uranium exploration, known as the Chikoleka and Little Ngona targets. An initial set of 9 trenches, selected on the basis of anomalous ground radiometric results, have been re-examined and geochemically sampled across profiles from soil/overburden into bedrock.

The first set of assay results of 142 soil and rock chip samples returned variably anomalous U, Nb and Ta values in most trenches, ranging up to 4.70 % U3O8, 3.25 % Nb2O5 in soil and up to 0.42 % U3O8, 0.78 % Nb2O5 and 972 ppm Ta2O5 in rock chips, notably higher than results from the 2013 reconnaissance surface geochemical sampling program. Results associated with the 10 best U3O8 assays are summarized in the table below.

Preliminary mineralogical studies carried out on six rock samples from the Little Ngona River and Chikoleka targets, using Scanning Electron Microscopy ("SEM") at the Natural History Museum (NHM) London, indicate that pyrochlore group minerals, mainly betafite, are the principal carriers of U, Nb and Ta for these samples.

Assays from the 10 highest- U_3O_8 samples from the Thambani trenching program

Trench No.	Profile	Sample No	From (m)	To (m)	Rock type	U3O8 Ppm	Nb2O5 ppm	Ta2O5 ppm
C3	A	U3622	0.5	1	Soil	47,094	32,462	45
C3	A	U3623	1	1.5	Soil	1,057	735	59
T11	C	U3508	0.5	1	Decomposed Feldspathic	4,231	7,805	743
T11	C	U3509	1	1.5	Decomposed Feldspathic	2,539	6,619	911
T11	B	U3505	0.5	1	Decomposed Feldspathic	2,369	5,424	972
T15	A	U3554	1	1.5	Feldspathic rock	1,657	4,346	67
T15	A	U3553	0.5	1	Feldspathic rock	1,616	3,754	431
T15	E	U3565	0.5	1	Feldspathic rock	1,553	3,525	41
T14	D	U3549	1.5	2	Feldspathic rock	1,432	3,034	434
T19	C	U3604	1	1.5	Feldspathic rock	1,367	5,525	675

On July 12, 2016, Mkango announced results of a new airborne geophysical survey covering approximately two thirds of its Thambani Licence. As per the Phalombe Licence, the survey was part of a US$25 million World Bank funded nationwide airborne geophysical programme flown at 250 metre spacing.

The new airborne survey confirms the presence of the previously-identified uranium radiometric anomaly referred to above along the western flank of the Thambani East Ridge. The Little Ngona prospect, which previously yielded very encouraging uranium, niobium and tantalum values from geochemical sampling, is located at the northern end of this anomaly.

A further discrete uranium anomaly, orientated approximately east-west, is located to the south of this anomaly and has yet to be investigated in detail. The previously-identified uranium radiometric anomaly on the West Ridge and Chikoleka prospect in the north-west of the licence area, which also yielded very encouraging results from previous geochemical sampling, were not covered by this Survey.

A map showing the uranium radiometric anomalies superimposed on a topographic map, indicating local infrastructure, and a digital elevation model can be accessed via the following link:
http://www.mkango.ca/i/maps/Results_of_Airborne_radiometric_survey_on_topo_U_July.jpg

The airborne survey also highlighted a number of magnetic anomalies not previously identified, including a 2.3 km linear magnetic high anomaly along the Thambani East Ridge, a further 1 km by 0.5 km magnetic high anomaly located to the north along the Thambani East Ridge, a magnetic low anomaly approximately co-incident with the abovementioned east–west orientated uranium anomaly and anomalies in a number of other locations. These areas require further investigation to determine the significance of the magnetic anomalies and whether they are related to mineralisation or geological features.

The magnetic high anomalies provide an excellent focus for future exploration for niobium - tantalum because columbite, a niobium - tantalum mineral, has previously been shown to be closely associated with magnetite and/or ilmenite at Thambani.

A map showing the magnetic anomalies superimposed on a topographic map, indicating local infrastructure, and a digital elevation model can be accessed via the following link:
http://www.mkango.ca/i/maps/Results_of_Airborne_magnetic_survey_on_topo_July_2016.jpg

In May 2017, Mkango announced the results of the latest work program. Assay results from 85 rock grab samples returned high grade uranium, tantalum and niobium values, ranging up to 3.3 % U_3O_8, 1.9 % Ta_2O_5 and 6.0 % Nb_2O_5. 35 of the samples graded above 500ppm U_3O_8 and 24 graded above 1,000ppm U_3O_8. Results associated with the twenty best U_3O_8 assays are summarised in the table below.

Assays from the 20 highest grade U_3O_8 samples from the 2017 Thambani sampling programme

Sample no.	U_3O_8 ppm	U_3O_8 %	Ta_2O_5 ppm	Ta_2O_5 %	Nb_2O_5 ppm	Nb_2O_5 %
U3141	32590	3.26	19029	1.9	59200	5.92
U3183	31812	3.18	15224	1.52	60055	6.01
U3136	10131	1.01	4845	0.48	32478	3.25
U3111	8826	0.88	4191	0.42	14871	1.49
U3127	5468	0.55	3084	0.31	15138	1.51
U3135	5265	0.53	2747	0.27	13183	1.32
U3122	5250	0.52	2431	0.24	10820	1.08
U3125	4518	0.45	2028	0.2	8461	0.85
U3115	4352	0.44	2221	0.22	9789	0.98
U3121	4191	0.42	2390	0.24	13585	1.36
U3137	3988	0.4	1896	0.19	8707	0.87
U3124	3952	0.4	2100	0.21	9600	0.96
U3168	3664	0.37	2022	0.2	7137	0.71
U3129	3562	0.36	1625	0.16	6469	0.65
U3176	3264	0.33	1905	0.19	5864	0.59
U3131	2768	0.28	1293	0.13	5314	0.53
U3133	2231	0.22	1235	0.12	5971	0.6
U3118	2163	0.22	1330	0.13	3838	0.38
U3172	1749	0.17	1351	0.14	3924	0.39
U3119	1741	0.17	916	0.09	4592	0.46

The main objectives of the programme were to confirm previously identified high-grade mineralisation at the Little Ngona target, ground-truth new geophysical targets and complete further reconnaissance sampling along the East and West Ridges. New areas of high grade uranium, tantalum and niobium mineralisation were identified at the foot of the West Ridge and on the East Ridge. Most significantly, a radiometric high at the foot of the West Ridge yielded two of four highest grade samples of this phase of exploration. Grab samples are selective samples and are not necessarily representative of the mineralization hosted on the property. The average grades for the 85 samples were 1,892 ppm U_3O_8, 1,029 ppm Ta_2O_5 and 4,562 ppm Nb_2O_5. The median grades for the 85 samples were 343 ppm U_3O_8, 222 ppm Ta_2O_5 and 958 ppm Nb_2O_5. The ranges of grades for the 85 samples were 1 – 32,590 ppm U_3O_8, 2 – 19,029 ppm Ta_2O_5 and 0 – 60,055 ppm Nb_2O_5.

Mkango is currently evaluating strategic options for Thambani, including opportunities to joint venture or spin-off the project or other potential avenues to create value.

As noted above, Mkango retains an 100% interest in the Thambani Licence.

3. CHIMIMBE HILLS, MCHINJI DISTRICT

On November 14, 2017, Lancaster was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 98.48 km2 in Chimimbe Hills, Mchinji district, Malawi. Exploration has identified a number of areas with potential for laterite and saprolite hosted nickel, cobalt, chrome and other mineralization.

The Chimimbe Licence runs for a period of three years and is renewable for further periods of two years and two years thereafter if the terms and conditions of the licence have been met.

Mkango will re-evaluate the Chimimbe Hill deposit in the context of geophysical data produced by the recent World Bank airborne geophysical survey of Malawi, recent infrastructure developments in the region, potential synergies with Songwe Hill project and Thambani uranium-tantalum-niobium project, options relating to sulphuric acid and/or alternative reagents supply and potential by-products, as well as opportunities to produce nickel and cobalt products for the battery electric vehicle market.

As noted above, Mkango retains an 100% interest in the Chimimbe Licence.

4. MAGINITO

As discussed above, Maginito is a new venture focused on downstream opportunities in the rare earths supply chain in particular rare earth alloy, magnet and other technologies geared to accelerating growth in the electric vehicle market, including the Metalysis Joint Venture. As of the date of this report, Talaxis has invested £1 million (US$1.4 million) for a 24.5% interest in Maginito with Mkango holding 75.5%.

Permanent magnets are critical materials for most electric vehicles; direct drive wind turbines and many other high growth applications. Neodymium is a key rare earth component at Songwe.

Following successful completion of Phase I research and development ("**R&D**") with Metalysis, the Phase II R&D programme is underway.

RESULTS OF OPERATIONS

The selected period information and summary of financial results below is derived from and should be read in conjunction with the Company's Financial Statements for the years ended December 31, 2017 and 2016:

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The selected period information and summary of financial results below is derived from and should be read in conjunction with the Company's Financial Statements for the years ended December 31, 2017 and 2016:

	2017				2016			
Total Operations	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Interest income	$ (105)	$ 225	$ (113)	$ 2	$ 2	$ 3	$ -	$ 2
Expenses	556,759	254,259	264,783	318,050	407,685	305,701	224,235	214,863
Other items	315,205	(61,723)	(120,327)	65,698	183,580	(92,390)	199,117	(3,337)
Warrant fair value loss (gain)	769,745	(136,752)	118,324	185,168	(1,119,538)	178,006	275,861	83,132
Net income (loss) for period	(1,641,814)	(55,559)	(262,893)	(568,914)	528,275	(391,314)	(699,213)	(294,656)
Loss per share - basic and diluted	$(0.018)	$(0.003)	$(0.003)	$(0.010)	$0.02	$(0.01)	$(0.02)	$(0.00)
Total assets	997,869	1,303,329	538,402	710,664	980,430	539,997	1,184,254	132,918
Cash	*691,276*	*338,976*	*498,352*	*671,089*	*388,678*	*491,424*	*1,121,239*	*87,774*

The financial data for the eight periods reported 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 December 31, 2017. The financial data is presented in US dollars.

The Company's principal activities require expenditures which include both exploration and general and administrative expenses.

FOURTH QUARTER 2017

The Company recognized a net loss of $1,641,814 and net income of $528,275 for the three months ended December 31, 2017 and 2016, respectively. Expenses are comprised of general and administrative costs, mineral exploration expenditures, depreciation and share-based payments. Other items are comprised of foreign exchange (gain) loss, accretion and loss (gain) on deferral of related party consulting fees. A comparison of the various costs for the three months ended December 31, 2017 and 2016 are presented in the table below:

	December 31, 2017	December 31, 2016	Change
General and administrative	$ 279,451	$ 116,321	$ 163,130
Mineral exploration	3,833	1,794	2,039
Depreciation	2,788	2,714	74
Stock based compensation	10,791	68,537	(57,746)
Valuation of marketing warrants	259,896	321,158	(61,262)
	556,759	510,524	46,235
Other items*	266,897	(370,855)	637,752
AIM listing costs	48,308	451,596	(403,288)
Warrant fair value	769,745	(1,119,538)	1,889,283
Total expenses before income	$ 1,641,709	$ (528,273)	$ 2,169,982

** Other items consist of accretion, gain on deferral of related party consulting fees and foreign exchange loss (gain).*

- General and administrative costs are comprised primarily of consulting and professional fees and office expenses required to maintain the on-going operations of a publicly listed Company, which is listed on two exchanges. During 2017, additional expenses were incurred as the management team engaged a partner to advance the Company's Songwe Hill project.
- The mineral exploration expenditures represent costs to maintain the exploration licence areas. These costs have been very low over the past two years as management focused their efforts at securing joint venture funding to advance the exploration and development projects. Mineral exploration expenses were reduced by $19,526 for the three months ended December 31, 2017 as the Company used grant funding to cover qualifying costs. The Company was approved on February 1, 2016 to receive the HiTech AlkCarb grant for an amount of up to €150,000 under the research program led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation. As of December 31, 2017, €42,611 had been received.
- Share based payments include the October 2017 one-time revaluation of the warrants issued to Noble and Zenith on December 30, 2016, whereby the expiry date was extended by 2 years to December 31, 2020 in October 2017. In comparison, for the three months ended December 31, 2016, there was a one-time expense of $321,158 for the original valuation of the warrants issued to Noble and Zenith.

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 year ended December 31, 2017, the Company had incurred costs of $48,200 (2016 - $25,862) for administrative services. As of December 31, 2017 the Company has an outstanding payable to Leo Mining in the amount of $12,686 (2016 – $26,959). The amount is unsecured and due on demand. Interest of 2% may be incurred on the outstanding amount annually; however, this has been waived since 2013.

b) Digby Wells Environmental ("Digby"), by virtue of a common director, was considered a related party. The Director ceased to be a director of Digby during July 2017. Therefore, Digby is only considered a related party up to July 31, 2017. During the period ended July 31, 2017, the Company had incurred costs of nil (2016 – $7,534) for environmental services. As of July 31, 2017, there was no outstanding payable to Digby (2016 – nil).

c) As of December 31, 2017, Talaxis was considered a related party as its percentage of actual voting interests in combination with potential voting interests exceeded 20% giving it significant influence over the Company. Transactions and balances with Talaxis are disclosed throughout the consolidated financial statements.

d) The Company incurred costs of $384,009 (2016 – $426,386) for key management and director fees and related costs for the year ended December 31, 2017. Of the total Director fees, $125,989 were unpaid and accrued for the year ended December 31, 2017 (2016 - $145,894). The current liabilities due to related parties are unsecured, due on demand and non-interest bearing.

	2017	2016
Consulting fees	$ 249,157	$ 258,311
Share-based awards	134,852	168,075
Total key management compensation	$ 384,009	$ 426,386

e) On March 6, 2016, the Board of Directors resolved that each director will be entitled to a payment of £1,000 per meeting, only payable upon a change of control of the Company. No amount has been accrued in the consolidated financial statements, as the amounts are contingent liabilities, payable only upon a change of control of the Company.

f) On May 12, 2016, the Company entered into new consulting agreements (the "Agreement") with its Chief Executive Officer and President (the "Executive Directors") whereby a total of £145,619 ($210,435), comprising deferred consulting fees payable to the Executive Directors were accrued since March 2015, and will only become payable on the earlier of, a change of control, termination of the Agreement, or May 12,

2018. Additional consulting fees have been unpaid and accrued since May 12, 2016, which have increased the accrual by £210,000 ($271,883), but shall not be payable until the earlier of (a) a Change of Control; (b) any termination of the agreement; (c) May 12, 2018; or (d) such time that funds are reasonably available from funds raised in excess of the £1,000,000 originally raised in connection with the admission to AIM. The Company recorded a gain on deferral of related party consulting fees at the time of initial deferral and upon deferral of each monthly amount. Accretion is recorded at an effective interest rate of 20% up to the estimated maturity date, May 12, 2018, of the consulting fees payable under the Agreement. The following table provides a reconciliation of amounts reflected in the consolidated financial statements for the year ended December 31, 2017:

	December 31, 2017	December 31, 2016
Initial deferral of consulting fees	$ 243,097	$ 210,435
Consulting fees	125,989	145,894
Loss (gain) on deferral of consulting fees	(20,307)	(108,292)
Accretion	68,271	23,523
Foreign exchange gain	31,330	(28,463)
Balance, end of year	$ 448,380	$ 243,097
Due to related parties with common directors	12,686	26,959
Due to key management and directors	17,743	1,967
Total due to related parties	$ 478,809	$ 272,023

EXPENDITURES

	For the years ended December 31, 2017	2016	*Change*
General and administrative			
Audit and tax management	31,625	35,000	***(3,375)***
Legal fees	33,297	5,841	***27,456***
Director's salaries (1)	217,735	225,849	***(8,114)***
Salaries and consulting fees	97,491	112,225	***(14,734)***
Office	201,872	65,060	***136,812***
Travel	25,887	9,232	***16,655***
Shareholder compliance & investor relations	129,340	88,153	***41,187***
Sub total - General and administrative	737,248	541,360	***195,888***
Malawi exploration expenditures			
Environmental studies	9,251	9,049	***202***
Mineral extraction development	114,632	22,137	***92,495***
Malawi Government fees	16,681	13,989	***2,692***
Consulting fees & salaries	54,820	7,153	***47,667***
Grant refund	(23,824)	(20,640)	***(3,184)***
Malawi office and camp expenses	52,903	38,467	***14,436***
Technical review and analysis	18,866	35,402	***(16,536)***
Sub total - Mineral exploration	243,329	105,557	***137,772***
Other Expenses			
Share-based payments	402,120	494,710	***(92,590)***
Accretion	68,271	23,523	***44,748***
Depreciation	11,154	10,857	***297***
AIM listing expense	48,308	451,596	***(403,288)***
Loss (gain) on deferral of related party consulting fees	(20,307)	(108,292)	***87,985***
Foreign exchange (gain) loss	102,582	(79,858)	***182,440***
Warrant revaluation	936,485	(582,539)	***1,519,024***
Total Expenses	**$2,529,190**	**$856,914**	***$1,672,276***

(1) Of the total Director's salaries, $125,989 was unpaid and accrued for the year ended December 31, 2017.
Of the total Director's salaries, $225,849 was unpaid and accrued for the year ended December 31, 2016.

Total expenses increased by $1,672,276 from total expenses of $856,914 for the year ended December 31, 2016 to $2,529,190 for the year ended December 31, 2017, as a result of the following factors:

a) Warrant Revaluation: The warrant revaluation resulted in a $1,519,024 increase in expenses for the year ended December 31, 2017 compared to the same period in 2016. The valuation of the warrants increased due to two changes. First, the share price of the Company almost doubled over the year. As of December 31, 2017 the share price was C$0.11 compared to a share price of C$0.06 for the year ended December 31, 2016. As well, the volatility for the company's share price increased significantly during 2017. Both of these factors resulted in a significant increase to the warrant valuation as of December 31, 2017.

b) General and administrative: General and administrative expenses for the year ended December 31, 2017 were $195,888 higher than expenses recognized for the same period in 2016. General and administrative expenses were higher due to an increase in travel, conferences, legal and consultant costs as management focused their efforts on securing joint venture funding to advance the exploration program.

c) Mineral Exploration: Mineral exploration expenses were $137,772 higher for the year ended December 31, 2017 compared to the same period in 2016. The increase is due to increased exploration work on the Thambani Licence, expenditures in relation to the Metalysis collaboration and flow sheet optimization for Songwe Hill.

d) AIM Listing Expense: The AIM listing expense resulted in a $403,288 decrease in expenses for the year ended December 31, 2017 compared to the same period in 2016. The costs incurred in 2016 were the result of the Company obtaining a listing on the AIM Market of the London Stock Exchange. These costs were significantly higher than the NOMAD and broker fees paid during 2017, which were required to maintain the AIM listing.

e) Stock Option Expense: The stock option expense recognized for the year ended December 31, 2017 was $92,590 lower than the expense recognized for the same period in 2016. The expense reported for the year ended December 31, 2016 included a one-time $321,158 expense for marketing warrants issued to Noble and Zenith.

f) Foreign exchange: The foreign exchange expense for the year ended December 31, 2017 was $182,440 higher than the expense recognized during the same period in 2016 due to fluctuations in the Euro, Canadian dollar and UK Sterling relative to the US reporting currency.

g) Other: The remaining difference of an increase of $133,030 between the year ended December 31, 2017 and the year ended December 31, 2016, was related to the changes in accretion, depreciation and the gain on deferral of related party costs.

COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The licence was originally issued by the Malawi Government on a three-year basis and has subsequently been renewed with the most recent renewal on January 21, 2017 for a further 2 years to January 21, 2019. The spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate MWK721):

Exploration commitments, 2 years	$	208,050
Ground rent, 2 years		23,554
Total commitment, 2 years	$	231,604

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 km2 in Thambani, Mwanza District, Malawi. The licence was originally issued by the Malawi Government on a three-year basis and was subsequently renewed on September 10, 2015 for an additional two years when the Company requested a reduction in the licence area to the current 136.9 sq km. The licence has been subsequently renewed for a further 2 years to September 8, 2019. The spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate MWK721):

Exploration commitments, 2 years	$	34,675
Ground rent, 2 years		7,596
Total commitment, 2 years	$	42,271

On November 14, 2017, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 98.48 km2 in Chimimbe Hill, Mchinji district, Malawi. The licence was issued by the Malawi Government for three-years and will be available for renewal for two years, thereafter. The spending commitments for exploration expenses with the Government of Malawi are 75,000,000 Kwacha over three years (foreign exchange rate MWK721):

Exploration commitments, 3 years	$	104,025
Ground rent, 3 years		4,098
Total commitment, 3 years	$	108,123

The Company is continuing to meet the terms and conditions of its two exploration licences and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programs. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi.

ISSUED AND OUTSTANDING SHARE INFORMATION

As at the date of this report, the Company has 108,650,055 Common Shares and 50,404,080 warrants issued. The Company has 9,840,000 stock options issued.

OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any off balance sheet arrangements or transactions.

ACCOUNTING POLICIES AND ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the financial results of the Company. Details outlining Mkango's accounting policies are contained in the notes to the consolidated audited financial statements for the year ended December 31, 2017.

The following IFRS pronouncements have been issued by the IASB as at December 31, 2017 but are not yet effective. The Company does not plan to early adopt any of these new or amended standards and interpretations and is currently assessing the impact of these new or amended standards and interpretations. Certain other new standards and interpretations have been issued but are not shown as they are not expected to have a material impact on the Company's consolidated financial statements.

1. <u>IFRS 9 financial instruments (New and Amendment)</u>
   In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Company on January 1, 2018. The Company expects no material impact on the consolidated statements of comprehensive income/loss or the consolidated statement of financial position and the Company will add the required note disclosure.

2. <u>IFRS 15 revenue from contracts with customers (New)</u>
   In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2018. The Company expects no material impact on the consolidated statement of comprehensive income/loss or the consolidated statement of financial position and the Company will add the required note disclosure.

3. <u>IFRS 16 leases (New)</u>
   IFRS 16, "Leases", issued on January 13, 2016 by the IASB replaces IAS 17 Leases. The new standard introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than twelve months. The new standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 "Revenue from Contracts with Customers" at or before the initial adoption date of January 1, 2018. The Company expects no material impact on the consolidated statement of comprehensive

income/loss or the consolidated statement of financial position and the Company will add the required note disclosure.

RISK FACTORS

Environmental Risk

The Company is subject to substantial environmental requirements. The current and anticipated future operations and exploration activities of the Company in Malawi require permits from various governmental authorities and such operations and exploration activities are and will be governed by local laws and regulations governing various elements of the mining industry including, without limitation, land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, and other matters. Globally, environmental legislation is evolving towards stricter standards and enforcement, more stringent environmental impact assessments of new mining projects and increasing liability exposure for companies and their directors and officers. There is no assurance that future environmental regulations will not adversely affect the Company's operations.

Exploration and Commercial Viability Risk

The Company does not currently produce rare earth elements from its Songwe Hill project where the Company is currently about to commence the Feasibility Study. While the Company has produced the Pre-feasibility Study, there is no assurance that the Feasibility Study will demonstrate the commercial viability of the project. Some of the factors that affect the financial viability of a given mineral deposit include its size, grade and proximity to infrastructure and the realizable value of the minerals extracted. These factors include, but are not limited to, government approval for mining licences and exploration licence extensions applications, government regulations, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations. All or some of these factors may have an impact on the economic viability of Songwe Hill.

Macroeconomic Risk

From a macroeconomic perspective, ongoing global market uncertainty has led to a significant reduction in risk appetite with respect to funding investment into mining companies. The ability for mining companies to access capital through traditional means may be significantly diminished, with the possible long-term result that projects may take longer to develop or may not be developed at all.

Foreign Countries and Political Policy Risk

The Company has interests in properties that are located in the developing country of Malawi. The Company's mineral exploration may be affected in varying degrees by political instability and government regulations relating to foreign investment and the mining industry. Changes, if any, in mining or investment policies or shifts in political attitude in Malawi may adversely affect the Company's operations. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, direct and indirect taxes, tax assessments, royalties, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory of judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Resource and Reserve Risk

Estimates of reserves and resources are inherently uncertain. There is a degree of uncertainty attributable to the calculation of reserves, resources and corresponding grades being mined or dedicated to future production. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on rare earth prices, operating costs and mining efficiency. Any material change in the quantity of reserves, resources or grade may affect the economic viability of Songwe Hill.

Mining Risks

The mining industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of rare earth elements could result in a significant decrease in the Company's future anticipated revenues. The mining industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced.

Readers are cautioned that the foregoing is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Mkango's operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

All financial instruments are initially recognized at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), held for trading, loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair value recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair value recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents are designated as FVTPL and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and due to related parties are designated as other financial liabilities.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related party approximates the carrying value. Financial instruments and share-based payment transactions are measured at fair value. The main financial risks affecting the Company are discussed below:

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

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

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

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

The carrying value of accounts receivable, subscriptions receivable, accounts payable and accrued liabilities and current liabilities due to related parties, approximates the fair value due to their short-term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are recorded as a derivative liability and carried at fair value.

The Company has issued share purchase warrants, exercisable for common shares. The exercise price of the share purchase warrants is fixed in Canadian dollars or British Pounds Sterling and the functional currency of the Company is the US dollar. Therefore, warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. The category "Warrants issued" below does not include warrants issued to brokers and agents since they fall under the scope of IFRS 2, share-based payments.

	Weighted	Weighted	Weighted	Number of	Amount

	Average Exercise Price (CAD)	Average Exercise Price (GBP)	Average Years Remaining	Warrants	
Balance at December 31, 2015	$ 0.39	£ -	1.39	15,069,284	$ 609,700
Warrants issued – June 15, 2016	-	0.066	1.49	30,303,030	1,091,584
Foreign exchange effect	-	-	-	-	(109,378)
Fair value change at December 31, 2016	-	-	-	-	(582,539)
Balance at December 31, 2016	$ 0.39	£ 0.066	1.46	45,372,314	$ 1,009,367
Warrants exercised	-	-	-	(4,014,371)	(364,385)
Foreign exchange effect	-	-	-	-	116,800
Fair value change at December 31, 2017	-	-	-	-	936,485
Balance at December 31, 2017	$ 0.39	£ 0.066	1.27	41,357,943	$ 1,698,267

The fair value of each warrant issued is determined at each reporting period using the Black-Scholes pricing model.

In order to determine the fair value of the Company’s outstanding warrants, assumptions are made with regards to the future value of the risk free interest rate, the Company’s share price volatility, the Company’s share price and the foreign exchange rate. Therefore, the fair value of the outstanding warrants is an estimate.

Non-current and current liabilities due to related parties that constitute a deferred payment are initially recorded at fair value, which is determined by discounting the liability using an applicable market rate.

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, receivables and the receipt of the second tranche of financing from Talaxis under the Agreement and the receipt of the remainder of the grant funding from the University of Exeter.

Concentration risk

The majority of the Company’s cash and cash equivalents are held by one major International bank. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and bear minimal risk.

Foreign currency rate risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in Canadian Dollar, British Sterling, United States dollar, South African Rand and the local currency in Malawi (Kwacha). The Company raises its equity in British Sterling and Canadian dollars and then purchases Canadian dollars, Euros, British Sterling, United States dollars, South African Rand and Malawi Kwacha funds to settle liabilities, as required.

As at December 31, 2017 and 2016, the following cash balances were held by the Company. The value of cash held by the Company has been adjusted for the valuations of derivative financial instruments and amounts due to related parties:

	2017	2016
Cash and cash equivalents:		
Canadian dollars	$ 166	$ 155
United States dollars	11,286	6,594
Euro and UK Sterling	673,015	380,588
Malawi Kwacha	6,809	1,341
Warrants – derivative financial instruments	(1,698,267)	(1,009,367)
Due to related parties	(478,809)	(243,097)
	$ (1,485,800)	$ (863,786)

A 5% reduction in the value of the Canadian dollar, Euro and British Pound in comparison to the United States dollar would cause a net loss of approximately $74,000. A 5% change in the value of the Malawian Kwacha in relationship to the United States dollar would not cause a material change in net loss.

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 what they are worth; 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 has in the past relied on equity financings to fund its activities. However, given the Talaxis Agreement, the Company does not anticipate the need to raise additional equity capital in the short term. Should it, however, need to raise additional funds and while it has been successful in raising funds in the past, there is no guarantee that adequate funds will be available in the future.

The following table outlines the maturities of the Company's liabilities as at December 31, 2017:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	$ 70,627	$ 70,627	$ -
Due to related parties	$ 478,809	$ 478,809	$ -

Capital Risk
The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in mining activities which may or may not be successful. The Company has no externally imposed capital requirements. Prior to the Talaxis transaction, the Company depended on equity placements to remain solvent. Should it need to do so again in the future, cash from these placements may or may not be available depending on market or other conditions.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, the Company had a working capital surplus of $427,547 (December 31, 2016 – $782,327) negative cash flows from operating activities (as is normally the case for a mineral exploration and development company) and had an accumulated deficit of $14,322,462 (2016 - $11,793,281).

The operations of the Company for the next 12 months are currently being funded by the net proceeds of an equity placement which closed on December 30, 2016 and October 26, 2017 and from the proceeds received upon the exercise of warrants on November 24, 2017, December 14, 2017, January 12, 2018, January 25, 2018, January 26, 2018 and March 1, 2018 and by the investment under the Talaxis Agreement. Since December 31, 2017, 3,614,771 warrants have been exercised for aggregate cash consideration of US$342,955. On January 28, 2018, in accordance with the terms of the Talaxis Agreement, Talaxis invested an initial £5 million (US$7 million) for a 20% interest in Lancaster and a further £1 million (US$1.4 million) for a 24.5% interest in Maginito. These investments will be reflected in the financial statements for the quarter ending March 31, 2018.

The Company has outstanding warrants as set out in this table:

	Weighted Average Exercise Price (CAD)	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants
Balance at December 31, 2015	$ 0.39	£ -	1.39	15,069,284
Warrants issued – June 15, 2016	-	0.066	1.49	30,303,030
Warrants exercised	-	-	-	(4,014,371)
Balance at December 31, 2017	$ 0.39	£ 0.066	1.27	41,357,943

The Company may receive additional capital from the exercise of warrants that are or become "in the money" over the course of the year.

In addition, since year-end, the Company has received €49,589 ($60,334) from the University of Exeter to advance the HiTech AlkCarb project. In combination with the previously received funds, the Company has received €92,200 ($108,326), as of the date of this report. The Company expects to receive up to a total of €150,000 ($202,725). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data will qualify for use of the grant funding.

The Company's cash balance at December 31, 2017 was $691,276 (December 31, 2016 - $388,678).

Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events, which are reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

DIRECTORS AND OFFICERS AS AT DECEMBER 31, 2017

William Dawes, Director and Chief Executive Officer
Alexander Lemon, Director and President
Derek Linfield, Chairman of the Board of Directors
David Berg, Audit Committee Chairman, Director and Corporate Secretary
Adrian Reynolds, Director (Audit Committee)
Eugene Chen, Director (Audit Committee)
Sandra Evans, Chief Financial Officer