Consolidated Financial Statements of

MKANGO RESOURCES LTD.

For the years ended December 31, 2017 and 2016

Independent Auditors' Report

To the Shareholders of Mkango Resources Ltd.

We have audited the accompanying consolidated financial statements of Mkango Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive loss, changes in deficit and cash flows for the years then ended, and notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mkango Resources Ltd. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the ability of Mkango Resources Ltd. to continue as a going concern.

Calgary, Alberta

April 11, 2018

MNP LLP
Chartered Professional Accountants

MNP

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

As at	Notes	December 31, 2017	2016
ASSETS			
Current			
Cash and cash equivalents		$691,276	$388,678
Accounts receivable		278,898	2,537
Subscription receivable		-	555,120
Prepaid expenses		10,338	5,584
Total currents assets		980,512	951,919
Property and equipment	5	17,357	28,511
Total assets		997,869	980,430
LIABILITIES			
Current			
Accounts payable and accrued liabilities		70,628	113,314
Due to related party	6	478,809	28,926
Grant received in advance	7	3,528	27,352
Total current liabilities		552,965	169,592
Long term			
Warrants - derivative financial instruments	8(b)	1,698,267	1,009,367
Due to related party	6(e)	-	243,097
Total liabilities		2,251,232	1,422,056
DEFICIENCY			
Share capital	8(a)	9,343,659	8,014,055
Contributed surplus		3,660,003	3,272,308
Accumulated other comprehensive loss		65,437	65,292
Deficit		(14,322,462)	(11,793,281)
Total deficiency		(1,253,363)	(441,626)
Total liabilities and deficiency		$997,869	$980,430

Going concern	2
Commitments	11
Subsequent events	13

Approved on behalf of the Board:

(signed) "*William Dawes*"

William Dawes, CEO and Director

(signed) "*David Berg*"

David Berg, Director

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	December 31, 2017	December 31, 2016
Expenses			
General and administrative		$737,248	$541,360
Mineral exploration expenditures		243,329	105,557
Depreciation	5	11,154	10,857
Share-based payments	8(c)	402,120	494,710
		1,393,851	1,152,484
Other items			
Interest income		(9)	(7)
Accretion	6	68,271	23,523
Listing expenses		48,308	451,596
Unrealized loss (gain) on revaluation of warrants	8(b)	936,485	(582,539)
Gain on deferral of related party consulting fees	6	(20,307)	(108,292)
Foreign exchange loss (gain)		102,582	(79,857)
Net loss		$2,529,181	$856,908
Other comprehensive loss			
Items that may be reclassified subsequently to net income			
Exchange difference on translating foreign operations		(145)	(263)
Total comprehensive loss		$2,529,036	$856,645
Net loss per share – basic and diluted		$0.029	$0.010
Weighted average shares outstanding basic		86,996,808	57,157,323

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	December 31, 2017	2016
Cash flow used by operating activities			
Net loss for the year		$(2,529,181)	$(856,908)
Items not affecting cash:			
Share based payments	8(c)	402,120	494,710
Unrealized loss on revaluation of warrants	8(b)	936,485	(582,539)
Issuance of common shares for services	8(a)	-	47,273
Depreciation	5	11,154	10,857
Unrealized foreign exchange (gain) loss on warrants	8(b)	116,800	(109,378)
Change in non-cash operating capital			
Accounts receivable and prepaid expenses		274,011	(338)
Accounts payable, accrued liabilities and due to related party		164,131	10,290
Grant received in advance, net of expenditures		(23,824)	27,352
Cash flow used by operating activities		(648,304)	(958,681)
Cash flow provided by financing activities			
Issue of common shares, net of share issue costs	8(a)	609,448	1,141,312
Warrants exercised	8(b)	341,346	-
Cash flow provided by financing activities		950,794	1,141,312
Cash flow used by investing activities			
Addition of assets		-	(2,377)
Cash flow used by investing activities		-	(2,377)
Effect of exchange rate changes on cash		108	263
Change in cash and cash equivalents		302,598	180,517
Cash and cash equivalents at the beginning of the year		388,678	208,161
Cash and cash equivalents at the end of the year		$691,276	$388,678

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at December 31, 2015		$7,399,685	$2,739,847	$65,029	$(10,936,373)	$(731,812)
Common shares issued	8(a)	1,973,320	-	-	-	1,973,320
Share issue costs	8(a)	(276,888)	-	-	-	(276,888)
Common shares issued - agent fee	8(a)	18,909	28,364	-	-	47,273
Warrant valuation	8(a)	(1,091,584)	-	-	-	(1,091,584)
Share based payments	8(c)	-	494,710	-	-	494,710
Warrants issued - agent fee	8(a)	(9,387)	9,387	-	-	-
Total comprehensive income		-	-	263	(856,908)	(856,645)
Balance at December 31, 2016		$8,014,055	$3,272,308	$65,292	$(11,793,281)	$(441,626)
Common shares issued	8(a)	688,206	(27,030)	-	-	661,176
Warrants exercised	8(a)	705,608	123	-	-	705,731
Share issue costs	8(a)	(51,728)	-	-	-	(51,728)
Warrants issued - agent fee	8(a)	(12,482)	12,482	-	-	-
Share based payments	8(c)	-	402,120	-	-	402,120
Total comprehensive income		-	-	145	(2,529,181)	(2,529,036)
Balance at December 31, 2017		$9,343,659	$3,660,003	$65,437	$(14,322,462)	$(1,253,363)

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

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

Mkango was originally incorporated under the name Alloy Capital Corp. ("Alloy") on November 13, 2007, under the laws of the Province of Alberta, Canada. On December 20, 2010, Alloy was acquired through a "reverse takeover" by Lancaster Exploration ("Lancaster BVI"). The articles of Mkango were amended to change its name from Alloy Capital Corp. to Mkango Resources Ltd. Mkango's head office is located at 706 27 Avenue NW, Calgary, Alberta, Canada, T2M 2J3.

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

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

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

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 11, 2018.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company has a working capital surplus of $427,547 as of December 31, 2017 (2016 - $782,327), negative cash flows from operating activities as is normally the case for a mineral exploration company and has an accumulated deficit of $14,322,462 (2016 - $11,793,281). In addition, the Company has future spending commitments with the Government of Malawi to keep its exploration licences in good standing. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi (Note 11). As at December 31, 2017, the licences are in good standing with the Government of Malawi. These factors indicate material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern.

The operations of the Company for the next 12 months are currently being funded by the net proceeds of equity placements which closed on December 30, 2016 and October 26, 2017 (Note 8), and from the proceeds received upon the exercise of warrants on November 24, 2017 and December 14, 2017 (Note 8), January 12, 2018, January 25, 2018, January 26, 2018, March 1, 2018 and the transaction announced on November 16, 2017, whereby Mkango entered into an agreement (the "Agreement") with Talaxis Limited ("Talaxis"), a wholly owned subsidiary of Noble Group Limited ("Noble") (Note 13).

Under the terms of the Agreement, Talaxis will fully fund a feasibility study for Songwe by investing £12 million (US$17 million) for a 49% interest in the project (via Mkango subsidiary Lancaster Exploration Ltd (BVI)). Talaxis will also have the option to acquire a further 26% interest by arranging funding for project development. If Talaxis exercises its option, Mkango will retain a 25% interest, free carried to production. As of the date of this report, Talaxis has invested £5 million (US$7 million), which is funding the initial phase of the Feasibility Study, for a 20% interest in the project with Mkango holding 80%. This investment will be reflected in the financial statements for the quarter ending March 31, 2018.

By investing a further £2 million (US$2.8 million), Talaxis will acquire a 49% interest in Maginito Ltd, a new subsidiary of Mkango 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 Ltd announced in September 2017, which is focused on advanced alloys using neodymium or praseodymium with other elements for permanent magnet manufacturing. 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. As of the date of this report, Talaxis has invested £1 million (C$1.4 million) for a 24.5% interest in Maginito with Mkango holding 75.5%. This investment will be reflected in the financial statements for the quarter ending March 31, 2018.

Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Company were unable to continue its operations.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect at January 1, 2017.

(b) Basis of presentation and measurement

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

(c) Functional and presentation currency and principles of consolidation

The consolidated financial statements are presented in 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%
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	100%

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(i) Exploration and evaluation expenditures

Costs incurred in respect of properties that have been determined to have proved reserves and for which an environmental impact study has been completed, are classified as development and production assets. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no established development past or present and no proved reserves assigned are classified as exploration and evaluation expenses and are recognized in the consolidated statement of comprehensive loss. The decision to start capitalization of expenditure to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As at December 31, 2017, management has determined that the Company has not yet reached the development and production stage.

(ii) Functional currency

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

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

(i) Measurement of share-based payments and warrant valuation (Note 8(b)(c))

The Company uses the Black-Scholes option-pricing model to determine the fair value of share-based payments and warrants. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

3. BASIS OF PRESENTATION (continued)

(ii) Determination of fair values (Note 10)

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

(e) Use of estimates and judgments (continued)

(iii) Taxes (Note 9)

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

(f) New IFRS pronouncements not yet implemented

The following IFRS pronouncements have been issued by the IASB as at 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.

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

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.

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

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.

(iii) IFRS 16 leases (New)

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.

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 recognized in the 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. E&E expenditures are not amortized.

Property and equipment ("P&E") expenditures

Items of property and equipment are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets 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 and categorized within property and equipment as mineral interests. Property and equipment is comprised of drilling and mining servicing assets, office equipment and other corporate assets. When significant parts of an item of property and equipment, including mineral interests, have different useful lives, they are accounted for as separate items (major components).

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 and 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 recognized 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 recognized 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 derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of comprehensive loss, as incurred.

(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 computer and office equipment, are recorded at cost and are depreciated over the estimated useful life of the asset on a straight-line basis at a 20% per annum. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(b) 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 grant proceeds received net of mineral exploration expenditures. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of comprehensive loss.

(ii) 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 CGU's. 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 recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGU's 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.

(d) Impairment losses

Impairment losses recognized 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 recognized. Reversal of impairment losses are recognized in the consolidated statement of comprehensive loss.

(e) Decommissioning obligation

The Company's activities may give rise to dismantling, decommissioning and site disturbance re-mediation 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 recognized 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 December 31, 2017, no decommissioning obligation has been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. 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 the consolidated statement of comprehensive loss.

Foreign currency translation adjustments are required each reporting period for Lancaster Malawi, a subsidiary of the Company, having a functional currency which differs from the parent. 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. Gains or losses are recognized in other comprehensive loss.

(g) Taxation

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 recognized 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 recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized 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 realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which 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 realized.

(h) Per share amounts

Basic per share amounts are calculated by dividing the net profit 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 period 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 and warrants to directors, officers, employees, consultants and strategic partners to purchase common shares. The fair value of options, determined using the Black-Scholes option pricing model on the date they are granted to employees, is recognized 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 recognized 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

Cash comprises of cash on hand and term deposits held with banks, with initial maturities of 3 months or less.

(k) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related parties. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss ("FVTPL")

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has classified cash and cash equivalents as fair value through profit or loss.

Loans and receivables

Other non-derivative financial assets classified as loans and receivables include accounts receivable, which are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities

Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities and are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

Warrants denominated in a currency other than the Company's functional currency are derivative financial instruments designated as FVTPL and are measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(l) 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 recognized 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 recognized in the consolidated financial statements, but rather disclosed.

(Reported in US dollars unless indicated otherwise)

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2015	$ 42,412	$ (5,421)	$ 36,991
Additions	2,377	-	2,377
Depreciation	-	(10,857)	(10,857)
Balance at December 31, 2016	$ 44,789	$ (16,278)	$ 28,511
Depreciation	-	(11,154)	(11,154)
Balance at December 31, 2017	$ 44,789	$ (27,432)	$ 17,357

6. RELATED PARTY TRANSACTIONS AND BALANCES

a) Leo Mining Exploration Ltd. ("Leo Mining") is considered related by virtue of common directors and officers who have an ownership in, and exercise significant influence over, both companies. The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services which may be provided, and the costs associated with such services. Generally, the Company repays the disbursements made by Leo Mining on its behalf. During the 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 – $185,070) for key management and director fees and related costs for the year ended December 31, 2017. Of these amounts £98,000 ($125,989) were accrued, as deferred consulting fees (2016 - £168,000 ($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:

(Reported in US dollars unless indicated otherwise)

6. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		December 31, 2017	December 31, 2016
Balance, beginning of year		$ 243,097	$ 210,435
Consulting fees deferred during the year		125,989	145,894
Loss (gain) on deferral of consulting fees		(20,307)	(108,292)
Accretion		68,271	23,523
Foreign exchange loss/(gain)		31,330	(28,463)
Balance, end of year		$ 448,380	$ 243,097
Due to related parties with common directors	6 (a)	12,686	26,959
Due to key management and directors	6 (c)	17,743	1,967
Total due to related parties		$ 478,809	$ 272,023

7. GRANT RECEIVED IN ADVANCE

Grant received in advance is comprised of grant funds, which have been received but not yet spent. The Company, through its wholly owned subsidiary, Lancaster BVI, is the recipient of a grant from the HiTech AlkCarb research program (the "Grant Program") led by the Camborne School of Mines, University of Exeter and funded under the European Union's Horizon 2020 Research and Innovation. Under the Grant Program, the Company will receive up to €150,000 ($202,725). During 2016, the Company received an initial advance of €42,611 ($47,992). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data ("Qualifying Expenditures") will qualify for use of the grant funding. As of December 31, 2017, the Company has incurred $44,464 in Qualifying Expenditures reducing the grant received in advance to $3,528 (2016 – $27,352).

8. SHARE CAPITAL

a) Common Shares

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

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

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

	Ref	Number	Amount
Closing balance December 31, 2015		40,418,985	$7,399,685
Brokered offering - June 15, 2016	(i)	30,303,030	1,418,200
Warrants valuation		-	(1,091,584)
Advisory shares	(ii)	333,333	18,909
Brokered offering - December 30, 2016	(iii)	12,857,124	555,120
Advisory warrants		-	(9,387)
Share issue costs	(iii)	-	(276,888)
Closing balance December 31, 2016		83,912,472	$8,014,055
Placement – October 26, 2017	(iv)	14,285,715	661,176
Advisory shares – June 15, 2016 offering	(ii)	666,666	27,030
Advisory warrants	(iv)	-	(12,482)
Warrants exercised	(v)	4,014,371	705,608
Share issue costs	(iv)	-	(51,728)
Closing balance December 31, 2017		102,879,224	$9,343,659

(i) On June 15, 2016, in conjunction with the admission to AIM, the Company issued 30,303,030 units at 3.3 pence per unit pursuant to the offering. Each Unit consisted of one common share and one common share purchase warrant of Mkango. The £1,000,000 ($1,418,200) gross proceeds of the offering were allocated between common shares ($326,616) and warrants ($1,091,584) based on the fair value of the warrants using the Black-Scholes option pricing model. Each Warrant entitles the holder to acquire one common share at a price of 6.6 pence until June 15, 2019.

(ii) On June 15, 2016, the Company issued 333,333 common shares valued at $18,909 to a corporate finance advisory firm (the "Advisor") in exchange for services provided in connection with the admission to AIM. The Company is required to issue an additional 666,666 common shares to the Advisor on June 15, 2017 or, in the event that the value of 666,666 shares does not exceed an equivalent value of £20,000 ($27,030), then the number of common shares equivalent to such an amount. The Company recorded an expense of $27,030 (2016 – $18,909) for the services provided, which is included as a component of AIM listing expenses and share capital.

(iii) On December 30, 2016, the Company issued 12,857,124 common shares at 3.5 pence per common share for gross proceeds of £449,999 ($555,120). The Company issued to the Agents 567,856 non-transferable finders' warrants valued at $9,387. Each warrant entitles the holder to acquire one common share for 3.5 pence until December 30, 2017. As at December 31, 2016, gross proceeds of $555,120 is recorded as subscriptions receivable and was collected after year-end.

Share issue costs of $276,888 were paid for agent and legal services and regulatory exchange filing fees. The Company incurred a total of $451,596 in connection with its listing on the AIM.

(iv) On October 26, 2017, Mkango closed a placement, with Talaxis, a wholly owned subsidiary of Noble, whereby Talaxis invested $661,176 (£500,000) in Mkango. Talaxis was issued 14,285,715 common shares of Mkango at 3.5 UK pence per common. As a result, Talaxis held an interest of 14.5% in Mkango. The Company paid cash finders' fees totalling $33,687 (£25,000) and issued to Zenith Advisory Services Pty Ltd. 714,285 non-transferable finders' warrants exercisable at a price of 3.5 UK pence for one year from closing.

(v) On November 24, 2017, a total of 3,445,000 and 417,856 warrants were exercised at an exercise price of 6.6 UK pence and 3.5 UK pence per common share, respectively, for total funds received of £241,995 ($320,981) in relation to the June 15, 2016 warrants issuance. On December 14, 2017, a total of 151,515 warrants were exercised at an exercise price of 6.6 UK pence per common share for total funds received of £10,000 ($13,335) in relation to the June 15, 2016 warrants issuance.

8. SHARE CAPITAL (continued)

b) Derivative financial instruments

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

	Weighted Average Exercise Price (CAD)	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants	Amount
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.

The following assumptions were used in arriving at the fair value estimate for the warrants denominated in CAD:

	December 31, 2016 *Revaluation*	December 31, 2017 *Revaluation*
Risk free interest rate (%)	0.78	1.66 – 1.68
Expected volatility (%)	138 – 145	117 – 126
Share price (CAD)	$0.06	$0.11
Foreign exchange rate	1.34	1.25
Remaining life (yrs.)	1.58 – 2.25	0.58 – 1.25

The following assumptions were used in arriving at the fair value estimate for the warrants denominated in GBP:

	December 31, 2016 *Revaluation*	December 31, 2017 *Revaluation*
Risk free interest rate (%)	0.87	1.68%
Expected volatility (%)	129%	116%
Share price (GBP)	£0.0343	£0.0725
Foreign exchange rate	1.23	1.35
Remaining life (yrs.)	2.45	1.45

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

c) Share-based payments

The Company has a rolling stock option plan (the "Plan") established to recognize contributions made by key personnel, to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continued association with the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of the grant of the options.

The share-based payments expense that has been recognized in the consolidated statements of comprehensive loss for the year ended December 31, 2017 was $402,120 (2016 - $494,710). Of this amount, $259,896 was related to marketing expenses and $142,223 related to the Plan. The corresponding amount has been recognized in contributed surplus. The stock options issued pursuant to the Plan vest over a term of 24 months.

The following tables provide a summary of information about the Company's stock option plan as at:

	December 31, 2017		*December 31, 2016*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**7,000,000**	**$0.06**	2,103,333	$0.81
Granted	**2,840,000**	**$0.07**	6,866,667	$0.06
Exercised	–	–	–	–
Cancelled	–	–	(1,970,000)	(0.83)
Expired	–	–	–	–
Forfeited	–	–	–	–
Closing	**9,840,000**	**$0.06**	7,000,000	$0.06

The following provides a summary of the stock option plan as at December 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.06 – 0.07	**9,840,000**	**9.0**	**$ 0.06**	**5,283,333**
	9,840,000	**9.0**	**$ 0.06**	**5,283,333**

The following provides a summary of the stock option plan as at December 31, 2016:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.06	7,000,000	9.5	$ 0.06	1,850,000
	7,000,000	9.5	$ 0.06	1,850,000

Following the share consolidation in 2016 (Note 8(a)), the Board of Directors noted that the stock options were "out of the money" and as a result failed to meet the objectives of the stock option plan. The Board of Directors determined that it was in the best interest of the Company to issue additional stock options. The stock options outstanding prior to consolidation were cancelled, with the exception of 133,333 stock options held by consultants, which were re-priced to C$0.06.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used in arriving at the fair value for the options that were issued June 15, 2016 and October 24, 2017:

	June 15, 2016	October 24, 2017
Risk free interest rate (%)	1.12	2.06
Expected life (yrs.)	10.0	10.0
Expected volatility (%)	109	133
Dividends	Nil	Nil
Forfeiture rate (%)	5.00	5.00
Weighted average fair value at issuance	$0.04	$0.05

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.066	**13,200,000**	**3.0**	**£ 0.066**	**13,200,000**
	13,200,000	**3.0**	**£ 0.066**	**13,200,000**

The following provides a summary of the Company's outstanding broker warrants as at December 31, 2016:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
£ 0.066	13,200,000	2.0	£ 0.066	13,200,000
	13,200,000	2.0	£ 0.066	13,200,000

The following tables provide a summary of information about the Company's outstanding broker warrants as at:

	December 31, 2017		*December 31, 2016*	
	Warrants	***Weighted–average exercise price***	*Warrants*	*Weighted–average exercise price*
Opening	**13,200,000**	**£0.066**	–	–
Cancelled	**(13,200,000)**	**£0.066**	–	–
Issued	**13,200,000**	**£0.066**	13,200,000	£0.066
Exercised	–	–	–	–
Expired	–	–	–	–
Closing	**13,200,000**	**£0.066**	13,200,000	£0.066

During 2016, the Company entered into the "Collaboration Agreement" with Noble. Under the terms of the Collaboration Agreement, the Company issued 12,000,000 common share purchase warrants to Noble. Each warrant entitled Noble to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2018. The warrants gave Noble the right to acquire up to a 12.5% interest in the Company. On October 26, 2017, as part of the Talaxis placement (Note 8(a)(iv)), Noble cancelled these warrants. Immediately upon cancellation, the Company issued 12,000,000 replacement common share purchase warrants to Noble's wholly owned subsidiary, Talaxis. Each warrant entitled Talaxis to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2020.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

During 2016, the Company engaged (the "Engagement") Zenith Advisory Services Pty Ltd. ("Zenith") to facilitate an introduction to Noble and to provide consulting services in respect of the Company entering into a rare earths collaboration agreement with Noble. Under the terms of the Engagement, Zenith is entitled to a fee comprising 10% of the number of warrants issued to Noble under the Collaboration Agreement. The Company issued 1,200,000 warrants to Zenith under the terms of the Engagement. On October 26, 2017, as part of the Talaxis placement (Note 8(a)(iv)), Zenith cancelled these warrants. Immediately upon cancellation, the Company issued 1,200,000 replacement common share purchase warrants to Zenith. Each warrant entitled Zenith to acquire one common share of the Company at a price of 6.6 UK pence until December 16, 2020.

The fair value of these warrants, $321,158, determined during the year ended December 31, 2016, using the Black-Scholes option pricing model was recorded in the consolidated financial statements as a component of share-based payment expense and contributed surplus. The fair value of each share-based payment option or warrant granted is estimated as of the grant date using the Black-Scholes option-pricing model.

In accordance with IFRS 2 Share-Based Payment, the cancellation and replacement of the warrants is treated as a modification to the originally issued equity instruments. Accordingly, the incremental increase in stock-based compensation expense is recognized in the current year. The incremental increase is measured as the difference between the fair value of the replacement warrants at the modification date and the fair value of the originally issued warrants at the modification date. The incremental increase in stock-based compensation expense recognized on the replacement warrants totals $259,896 for the year ended December 31, 2017.

The following assumptions were used in arriving at the fair value estimates for the broker warrants:

	December 16, 2016 *Fair value of warrants at issue date*	October 26, 2017 *Fair value of original warrants at modification date*	October 26, 2017 *Fair value of replacement warrants at modification date*
Risk free interest rate (%)	0.78	1.49	1.54
Expected volatility (%)	139	108	141
Share price (CAD)	£0.035	£0.033	£0.033
Foreign exchange rate	1.25	1.31	1.31
Remaining life (yrs.)	2.0	1.1	3.18

9. TAXES

The differences between the tax provisions calculated using the statutory rates and the reported tax provision are as follows:

For the year ended December 31,		2017		2016
Net loss before taxes	$	(2,529,181)	$	(856,908)
Statutory tax rate		27%		27%
Expected tax expense (recovery)		(682,879)		(231,365)
Increase (decrease) in taxes:				
Revaluation of warrants		252,851		(157,286)
Share-based payments		105,213		133,572
Foreign exchange		31,990		(36,770)
Tax rate differential between Canada and foreign jurisdictions		179,867		119,397
Change in deferred tax assets not recognized		112,958		172,452
Tax expense (recovery)	$	-	$	-

(Reported in US dollars unless indicated otherwise)

9. TAXES (continued)

The deferred tax assets (liabilities) are comprised of:

As at December 31,	2017	2016
Due to related parties	$ -	$ (20,172)
Loss carry forwards	-	20,172
	$ -	$ -

No deferred tax assets have been recognized in respect of the following deductible temporary differences as it is not probable that future taxable profit will allow the deferred tax asset to be recovered.

As at December 31,	2017	2016
Property and equipment	$ 34,483	$ 23,329
Evaluation and exploration costs	5,979,119	5,755,872
Loss carry forwards	9,194,823	7,868,974
Share issue costs	652,665	838,998
	$ 15,861,090	$ 14,487,173

As at December 31, 2017, the Company had $3,784,231 (2016 – $3,728,524) in non-capital losses available to claim against future taxable income in Malawi. These non-capital losses do not expire.

As at December 31, 2017, the Company had CDN $3,951,108 (2016 – CDN $3,303,109) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount CDN$
2028	77,375
2029	32,143
2030	58,995
2031	222,922
2032	428,103
2033	582,721
2034	673,101
2035	632,671
2036	594,807
2037	648,270
	$ 3,951,108

10. FINANCIAL INSTRUMENTS

Determination of fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the consolidated 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.

10. FINANCIAL INSTRUMENTS (continued)

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 (Note 8(b)). 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 (Note 6(e)).

Financial risk management

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

Foreign currency risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in the Canadian Dollar, the United States dollar, the Euro, the British Pound and Malawian Kwacha. The Company raises its equity in the Canadian dollar and the British Pound, and then purchases United States dollar and Malawian Kwacha funds to settle liabilities, as required. The Company's exposure to foreign currency risk as at December 31, 2017 and 2016 is most significantly influenced by the following financial instruments denominated in foreign currencies (amounts shown in US dollars):

	As at December 31,	
	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 change in 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.

Interest rate risk

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

Liquidity risk

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

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 necessitate the Company to conduct equity issuances or obtain project debt financing.

The Company manages its liquidity risk by maintaining adequate cash and cash equivalents. The Company is actively seeking additional funding to improve its exposure to liquidity risk. The Company continually monitors its actual and forecast cash flows to ensure that there are adequate reserves to meet the maturing profiles of its financial liabilities.

(Reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

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	$ -

Credit risk

The Company's principal financial assets are cash and cash equivalents and accounts receivable. The credit risk on cash and cash equivalents is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies. Accounts receivable consists primarily of an amount owing from Talaxis of £200,000 ($267,890), related to the reimbursement of R&D expenses incurred, as outlined in the agreement between the Talaxis and Mkango entered into November 16, 2017. The amount was collected subsequent to year end December 31, 2017.

11. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Malawi Government on a three-year basis, originally, and has subsequently been renewed with the most recent renewal on January 21, 2017 for a further 2 years to January 21, 2019. The future spending commitments for the exploration rights with the Government of Malawi are 150,000,000 Kwacha over two years (foreign exchange rate as at December 31, 2017 – 721 MWK to 1 USD):

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 square kilometres in Thambani, Mwanza District, Malawi. The license was issued by the Malawi Government on a three-year basis, originally, and was subsequently renewed on September 10, 2015, for an additional two years when the Company requested a reduction in the license area to the current 136.9 square kilometres. The license has subsequently renewed for a further 2 years to September 8, 2019. The future spending commitments for exploration expenses with the Government of Malawi are 25,000,000 Kwacha over two years (foreign exchange rate as at December 31, 2017 – 721 MWK to 1 USD):

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 square kilometres in Chimimbe Hill, Mchinji district, Malawi. The license was originally issued by the Malawi Government on a three-year basis, and will be available for renewal every two years, thereafter. The future spending commitments for exploration expenses with the Government of Malawi are 75,000,000 Kwacha over three years (foreign exchange rate as at December 31, 2017 – 721 MWK to 1 USD):

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 three exploration licenses and provides updates to Malawi's Ministry of Mining on a regular basis regarding progress of its work programs. If the amount expended is less than the minimum commitment, the shortfall becomes a debt to the Government of Malawi.

12. CAPITAL MANAGEMENT

The Company's total capital consists of shareholders' deficiency, which amounts to $1,253,363 as at December 31, 2017. The operations of the Company for the next 12 months are currently being funded by the net proceeds of equity placements, which closed on December 30, 2016 and October 26, 2017 (Note 8(a)), and from the proceeds of the exercise of warrants on November 24, 2017, December 14, 2017, January 12, 2018, January 25, 2018, January 26, 2018, March 1, 2018 and the transaction announced on November 16, 2017, whereby Mkango entered into an Agreement with Talaxis, a wholly owned subsidiary of Noble to fund a feasibility study for Songwe and expenditure in relation to Maginito.

The Company's objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has no externally imposed capital requirements.

13. SUBSEQUENT EVENTS

1. On November 16, 2017, Mkango entered into an agreement with Talaxis, a wholly owned subsidiary of Noble. Under the Agreement, Talaxis is entitled to receive a 49% interest in Mkango's subsidiary, Lancaster BVI, the licence holder for Mkango's Songwe Hill Rare Earths Project ("Songwe" or the "Project"), by investing an aggregate of £12 million (C$20 million) in Lancaster BVI in three tranches to complete the bankable feasibility study, with the final tranche of £7 million being subject to the completion of a definitive Joint Venture Agreement and Mkango publishing an updated 43-101 compliant mineral resource estimate. Subject to completion of the definitive Joint Venture Agreement, Talaxis will be granted the Option to acquire a further 26% interest in Lancaster BVI by arranging funding for Project development, which, based on the pre-feasibility study prepared by the MSA Group (Pty) Ltd dated December 1, 2015, would total US$216 million. If the Option is exercised, Mkango will hold a 25% interest in Lancaster BVI, free carried until production.

   The Agreement provides that the first tranche of the Talaxis investment, £2 million, will be paid upon receipt of TSX Venture Exchange ("TSXV") approval for the transaction. Approval for the transaction was received at the annual and special meeting of the shareholders held on January 18, 2018. Payment of the second tranche, £3 million, was to be received 45 days after such approval. The first and second tranche payments totalling £5 million were received on January 24, 2018. The payment of the third tranche of £7 million is conditional on completion of the definitive Joint Venture Agreement in respect of the Project and on Mkango publishing an updated 43-101 resource.

   In addition, by investing a further £2 million in two tranches, Talaxis will receive a 49% interest in Maginito Limited ("Maginito"), Incorporated January 3, 2018 in BVI, which will focus 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. The use of proceeds include expenditures under an agreement with Metalysis focused on advanced alloys using neodymium or praseodymium with other elements for magnet development and potential 3D printing applications. Upon completion of the investments, Mkango will hold a 51% interest in Maginito. The Agreement provides that the first tranche of the investment by Talaxis will be paid within 45 days of receipt of TSXV approval for the transaction. The payment of £1 million was received on January 24, 2018. Payment of the second tranche is conditional on completion of a definitive Investment Agreement in respect of Maginito and successful completion of the Phase II R&D programme, which is the second phase of the Neodymium Alloy Project in collaboration with Metalysis.

   Under the terms of the Agreement, Talaxis will be Mkango's preferred partner for all rare earths' projects worldwide and for all activities of any sort in Malawi. Talaxis will be granted a right of first offer to finance any such activities of Mkango (including in respect of any of the current assets of Lancaster other than Songwe). Mkango will be Talaxis' preferred partner for all rare earths' projects worldwide. All such opportunities will be offered to Mkango on a 50/50 shared economics basis, with Mkango being entitled to participate at any level that it chooses.

2. On January 12, 2018, Mkango announced that 2,156,060 warrants had been exercised for an aggregate cash consideration of £137,650 ($186,140). On January 25, 2018, Mkango announced that 1,716,650 warrants had been exercised for an aggregate cash consideration of £125,953 ($157,050). On January 26, 2018, Mkango announced that 1,546,212 warrants had been exercised for an aggregate cash consideration of £102,050 ($144,793). On March 1, 2018, a Director exercised 351,909 warrants for an aggregate cash consideration of C$52,786 (US $41,336).

13. SUBSEQUENT EVENTS (continued)

3. On February 6, 2018, €49,589 ($60,334) was received from the University of Exeter to advance the HiTech AlkCarb project (Note 7). The Company will receive up to €150,000 ($202,725). In combination with the previously received funds, the Company has received €92,200 ($108,326), as of the date of this report. 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.