Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Mkango Resources Ltd.:

Opinion

We have audited the consolidated financial statements of Mkango Resources Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred net losses of $3,039,236 and negative cash flows from operations of $3,571,152 during the year ended December 31, 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter– Restated Comparative Information

We draw attention to Note 15 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

MNP LLP

April 28, 2020

Chartered Professional Accountants

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

As at	Notes	December 31, 2019	Restated December 31, 2018 (Note 15)
ASSETS			
Current			
Cash		$9,530,017	$2,391,964
Restricted cash		-	8,738
Government remittances receivable		89,259	68,808
Other receivables		3,721	-
Prepaid expenses and accrued income		111,357	140,692
Total currents assets		9,734,354	2,610,202
Property and equipment	5	95,880	75,359
Total assets		9,830,234	2,685,561
LIABILITIES			
Current			
Accounts payable and accrued liabilities		410,645	353,347
Due to related parties	6	57,733	335,804
Warrants - derivative financial instruments	8(b)	-	792,121
Grant received in advance	7	48,083	63,862
Total liabilities		516,461	1,545,134
SHAREHOLDERS' EQUITY			
Share capital	8(a)	12,563,211	10,641,411
Contributed surplus		3,969,283	3,774,020
Accumulated other comprehensive income		106,413	84,088
Retained deficit		(4,413,119)	(11,150,914)
Total shareholders' equity of parent		12,225,788	3,348,605
Non-controlling interest	9	(2,912,015)	(2,208,178)
Total liabilities and shareholders' equity		$9,830,234	$2,685,561

Going concern	2
Commitments	11
Subsequent events	16

Approved on behalf of the Board:

"Signed"

William Dawes, CEO and Director

"Signed"

Shaun Treacy, Director

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the year ended December 31, 2019	2018
Expenses			
General and administrative		**$1,514,049**	$1,761,258
Mineral exploration expenditures		**1,721,749**	4,539,059
Research and development		**25,750**	410,173
Depreciation	5	**29,829**	25,906
Share-based payments	8(c)	**265,087**	136,976
		3,556,464	6,873,372
Other items			
Interest income		**(98)**	(1,013)
Accretion		**-**	24,512
Listing expenses		**95,830**	89,703
Unrealized (gain) loss on revaluation of warrants	8(b)	**(692,089)**	(487,474)
Realized (gain) loss on revaluation of warrants	8(b)	**(8,280)**	166,032
Loss on deferral of related party consulting fees	6	**-**	7,960
Foreign exchange (gain) loss		**87,409**	503,036
Net loss		**$3,039,236**	$7,176,128
Net loss attributable to			
Common shareholders		**1,668,652**	5,721,889
Non-controlling interest	9	**1,370,584**	1,454,239
Attributable net loss		**3,039,236**	$7,176,128
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Exchange difference on translating foreign operations		**(22,325)**	(18,651)
Total comprehensive loss		**$3,016,911**	$7,157,477
Total comprehensive loss attributable to			
Common shareholders		**1,652,494**	5,707,751
Non-controlling interest	9	**1,364,417**	1,449,726
Attributable comprehensive loss		**$3,016,911**	$7,157,477
Net loss per share – basic and diluted (Restated – Note 15)		**$(0.013)**	$(0.053)
Weighted average shares outstanding basic and diluted		**124,173,150**	108,903,087

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the years ended December 30, 2019	2018
Cash flow used by operating activities			
Net (loss) for the year		**$(3,039,236)**	$(7,176,128)
Items not affecting cash:			
Unrealized (gain) on revaluation of warrants	8(b)	**(692,089)**	(487,474)
Realized (gain) loss on revaluation of warrants	8(b)	**(8,280)**	-
Share based payments	8(c)	**265,087**	136,976
Depreciation	5	**29,829**	25,906
Accretion	6	**-**	24,512
Loss on deferral of related party consulting fees	6	**-**	7,960
Unrealized foreign exchange loss (gain)		**104,924**	(63,246)
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		**5,163**	79,158
Grant received in advance, net of expenditures		**(15,779)**	60,335
Due to related parties		**(278,071)**	91,720
Accounts payable and accrued liabilities		**57,300**	28,114
Cash flow used by operating activities		**(3,571,152)**	(7,272,167)
Cash flow provided by financing activities			
Investment by non-controlling investor	9	**9,255,853**	8,309,380
Share issue expenses	9	**(188,826)**	(169,883)
Stock options exercised	8(a)	**75,811**	-
Warrants exercised	8(a)	**1,687,093**	919,366
Cash flow provided by financing activities		**10,829,931**	9,058,863
Cash flow used by investing activities			
Addition of assets	5	**(50,350)**	(83,908)
Cash flow used by investing activities		**(50,350)**	(83,908)
Effect of exchange rate changes on cash		**(79,114)**	6,638
Change in cash		**7,129,315**	1,709,426
Cash and restricted cash at the beginning of the year		**2,400,702**	691,276
Cash and restricted cash at the end of the year		**$9,530,017**	$2,400,702

Refer to accompanying notes to the consolidated financial statements.

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

	Note	Share capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2017		$9,343,659	$3,660,003	$65,437	$(14,322,462)	$-	$(1,253,363)
Warrants exercised	8(a)	1,297,752	(22,959)	-	-	-	1,274,793
Share based payments	8(c)	-	136,976	-	-	-	136,976
Acquisition of shares by NCI	9	-	-	-	-	(2,443,474)	(2,443,474)
Gain on recognition of NCI	9	-	-	-	10,582,972	-	10,582,972
Total comprehensive income		-	-	18,651	(5,721,889)	(1,454,239)	(7,157,477)
Balance at December 31, 2018		$10,641,411	$3,774,020	$84,088	$(9,461,379)	$(3,897,713)	$1,140,427
Prior period adjustment	15	-	-	-	(1,689,535)	1,689,535	-
As restated		$10,641,411	$3,774,020	$84,088	$(11,150,914)	$(2,208,178)	$1,140,427
Warrants exercised	8(a)	1,776,165	-	-	-	-	1,776,165
Stock options exercised	8(a)	145,635	(69,824)	-	-	-	75,811
Share based payments	8(c)	-	265,087	-	-	-	265,087
Acquisition of shares by NCI	9	-	-	-	-	660,580	660,580
Foreign exchange change		-	-	-	-	6,167	6,167
Gain on recognition of NCI	9	-	-	-	8,406,447	-	8,406,447
Total comprehensive income		-	-	22,325	(1,668,652)	(1,370,584)	(3,016,911)
Balance at December 31, 2019		**$12,563,211**	**$3,969,283**	**$106,413**	**$(4,413,119)**	**$(2,912,015)**	**$9,313,773**

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

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. On October 15, 2018, Mkango discontinued its incorporation in Alberta, Canada and became incorporated in the province of British Columbia, Canada. Mkango's registered office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0A3.

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"), the Chimimbe exploration license ("Chimimbe License") and the Mchinji Exploration license ("Mchinji License").

Lancaster BVI was incorporated on August 3, 2007, by Memorandum and Articles of Association issued pursuant to the provisions of the British Virgin Islands ("BVI") Companies Act. Lancaster BVI is 51% owned by Mkango and 49% owned by Talaxis Limited ("Talaxis") (Note 9). Lancaster BVI's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

On May 19, 2011, Lancaster Exploration Limited ("Lancaster Malawi") was incorporated under the laws of Malawi. Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI and as such, is 49% owned by Talaxis.

On January 3, 2018, 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 (Note 9). Maginito's registered office is located at Jayla Place, Wickhams Cay 1, P.O. Box 3190, Road Town, Tortola, British Virgin Islands, VG1110.

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

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

Mkango and its 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 28, 2020.

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. As of December 31, 2019, the Company incurred net losses of $3,039,236 and negative cash flows from operations of $3,571,152. 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, 2019, the licences are in good standing with the Government of Malawi. These factors may indicate material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern.

Notwithstanding the above paragraph, the operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million ($16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 9). Talaxis holds an option to fund project development. The Talaxis investments will be used to fund a Bankable Feasibility Study for the Songwe Hill project. In addition, Talaxis invested £1 million ($1.3 million) in Maginito during 2018. The operations of the Company are also being funded by the proceeds received upon the exercise of warrants and stock options (Note 8(a)).

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 on January 1, 2019.

(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 United States dollars ("US dollars"), which is the functional currency of Mkango. Below is a listing of ownership percentage and functional currency of Mkango's subsidiaries:

Entity Name	Functional Currency	Ownership Percentage
Lancaster Exploration ("Lancaster BVI")	US Dollar	51% (2018: 80%)
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	51% (2018: 80%)
Maginito Limited ("Maginito")	Pound Sterling	75.5% (2018: 75.5%)
MKA Exploration Limited ("MKA Exploration")	US Dollar	100% (2018: 100%)
MKA Exploration Limited ("MKA Exploration Malawi")	Malawi Kwacha	100% (2018: N/A)

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

(d) Non-controlling interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' equity (deficiency). Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 51% of the common outstanding shares of its subsidiaries, Lancaster BVI, Lancaster Malawi and 75.5% of the outstanding common shares of Maginito. These consolidated financial statements include 100% of the assets and liabilities related to Lancaster BVI, Lancaster Malawi and Maginito and include a non-controlling interest representing 49% of Lancaster BVI, 49% of Lancaster Malawi and 24.5% of Maginito's assets and liabilities not owned by the Company.

(e) Use of estimates and judgments

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

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

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

(i) 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 expenditures to property and equipment is subject to management's judgement regarding the project's commercial viability and technical feasibility. As at the date of this report, management has determined that the Company has not yet reached the development and production stage.

3. BASIS OF PRESENTATION (continued)

(ii) Functional currency

The determination of the functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each entity operates. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Therefore, determination of functional currency may involve certain judgments to determine the economic environment, which is the most representative for each subsidiary. The Company reconsiders the functional currency of each subsidiary if there is a significant change in the underlying transactions, events and conditions that were initially considered in determining the functional currency.

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.

(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.

(iii) Taxes

Provisions for taxes are made using the best estimate of the amounts 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

Certain new IFRS 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.

(g) IFRS pronouncements adopted January 1, 2019

As required, the Company adopted IFRS 16 – Leases (“IFRS 16”) as of January 1, 2019. IFRS 16, “Leases” (“IFRS 16”), replaces existing standards and interpretations on lease recognition. On January 13, 2016, the IASB published a new standard, IFRS 16, which brings most leases for lessees onto the balance sheet under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use (“ROU”) asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

The Company has elected to use the modified retrospective approach in its adoption of IFRS 16. The modified retrospective method does not require restatement of prior period financial information as it may recognize the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s consolidated financial statements is not restated.

Impact of the application of IFRS 16

The Company completed an assessment of the impact of IFRS 16. The Company holds mineral property leases which are exempt from IFRS 16 and a number of low value leases and short term leases which have no material impact on the consolidated financial statements.

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 consolidated statement of comprehensive loss as mineral exploration expenditures, including the costs of acquiring licenses pending determination of technical feasibility and commercial viability.

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

Property and equipment ("P&E") expenditures

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

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

(iii) Depletion and depreciation

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

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

(b) Government grants

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment

(i) 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.

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.

(d) Decommissioning obligation

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

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is 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, 2019 and 2018, no decommissioning obligation has been recognised.

(e) 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, MKA Exploration, MKA Exploration Malawi and Maginito, subsidiaries of the Company, having functional currencies which differ from the presentation currency. Non-financial assets are translated at the historical rate. Financial assets and liabilities are translated at exchange rates in effect at the date of the consolidated statement of financial position and expenses are translated at the average rate for the year with gains or losses recognized in other comprehensive loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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.

(g) Per share amounts

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

(h) Share-based payments

The Company has issued options to directors, officers, employees, consultants and strategic partners to purchase common shares. The fair value of options, and warrants determined using the Black-Scholes option pricing model on the date they are granted to employees, is 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.

(i) Cash

Cash is comprised of cash on hand.

(j) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions (continued)

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.

(k) Financial instruments

Classification and measurement of financial assets and liabilities

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

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

- A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized costs using the effective interest method.

- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

    - Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

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

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of comprehensive income.

- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognized in the consolidated statement of comprehensive income.

- Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Impairment of financial assets

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

(Reported in US dollars unless indicated otherwise)

5. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at December 31, 2017	$ 289	$ -	$ 44,500	$ -	$ 44,789
Additions	-	-	3,897	80,011	83,908
Balance at December 31, 2018	$ 289	$ -	$ 48,397	$ 80,011	$ 128,697
Additions	-	50,350	-	-	50,350
Balance at December 31, 2019	**$ 289**	**$ 50,350**	**$ 48,397**	**$ 80,011**	**$ 179,047**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation					
Balance at December 31, 2017	$ 202	$ -	$ 27,230	$ -	$ 27,432
Depreciation	87	-	11,612	14,207	25,906
Balance at December 31, 2018	$ 289	$ -	$ 38,842	$ 14,207	$ 53,338
Depreciation	-	2,517	7,309	20,003	29,829
Balance at December 31, 2019	**$ 289**	**$ 2,517**	**$ 46,151**	**$ 34,210**	**$ 83,167**
Net Book Value					
December 31, 2018	$ -	$ -	$ 9,555	$ 65,804	$ 75,359
December 31, 2019	**$ -**	**$ 47,833**	**$ 2,246**	**$ 45,801**	**$ 95,880**

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. The Company repays the disbursements made by Leo Mining on its behalf. During the year ended December 31, 2019, the Company had incurred costs of $78,821 (December 31, 2018 - $79,415) for reimbursed exploration and administrative expenses. As of December 31, 2019, the Company has an outstanding payable to Leo Mining in the amount of $4,177 (December 31, 2018 – $12,496). The amount is unsecured and due on demand.

b) Talaxis is considered an insider as it holds more than 10% of the shares of the Company. Transactions and balances with Talaxis are disclosed throughout the consolidated financial statements.

c) Zenith Advisory Services Pty Ltd. ("Zenith") is considered a related party because a director of the Company is a principal of Zenith. During the year ended December 31, 2019, the Company has incurred costs of $191,403 (December 31, 2018 - $168,823) for advisory services related to the Talaxis investments. As of December 31, 2019, the Company has an outstanding payable of $nil to Zenith (December 31, 2018 – $nil). Any outstanding liabilities due will be unsecured, due on demand and non-interest bearing.

d) The Company incurred costs of $741,466 (December 31, 2018 – $774,406) for key management fees and director fees for the year ended December 31, 2019. The non-executive Directors of the Company are each entitled to a fee of $16,000 per year and the Chairman of the Board is entitled to a fee of $40,000 per year. As of December 31, 2019, the Company has an outstanding payable due to directors and officers of $53,556 (December 31, 2018 – $97,792). The current liabilities due to key management and directors are unsecured, due on demand and non-interest bearing.

(Reported in US dollars unless indicated otherwise)

6. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

December 31,	**2019**	2018
Consulting fees	**$ 383,213**	$ 452,426
Director fees	**104,000**	81,797
Retirement allowance	**-**	108,000
Share-based payments	**254,253**	132,183
Total key management compensation	**$ 741,466**	$ 774,406

The Company recorded a gain on deferral of related party consulting fees at the time of the initial deferral and upon deferral of each monthly amount. Accretion was recorded at an effective interest rate of 20% of the consulting fees payable. At December 31, 2018 the amounts were payable on demand and the remainder of the deferred consulting fees were paid to the executive directors in February and May 2019. The following table provides a reconciliation of amounts reflected in the consolidated financial statements for the year ended December 31, 2019 and 2018:

December 31,		**2019**	2018
Balance, beginning of year		**$ 225,516**	$ 448,380
Consulting fees paid during the year		**(226,941)**	(244,969)
Loss on deferral of consulting fees		**-**	7,960
Accretion		**-**	24,512
Foreign exchange loss		**1,425**	(10,367)
Balance, end of year		**$ -**	$ 225,516
Due to related parties with common directors	6 (a)	**4,177**	12,496
Due to key management and directors	6 (d)	**53,556**	97,792
Total due to related parties		**$ 57,733**	$ 335,804

7. GRANT RECEIVED IN ADVANCE

Grant received in advance is comprised of grant funds, which have been received and partially consumed. 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 (“EU"). Under the Grant Program, the Company will receive up to €168,553 ($189,241). During 2016, the Company received an initial advance of €42,611 ($47,922). On February 6, 2018, Lancaster BVI received a further €49,589 ($61,199). Expenses associated with building exploration expertise in hi-tech raw materials, improving and developing interpretation of geophysical and down-hole data (“Qualifying Expenditures”) have qualified for use of the grant funding. During the period ended March 31, 2018, the Company received confirmation from the EU that the $46,772 of Qualifying Expenditures reported in July 2017 had been approved. An additional $55,927 of Qualifying Expenditures was submitted for approval on March 31, 2019. On August 12, 2019, Lancaster BVI received a further €39,507 ($43,675) in grants under the Grant Program. As of December 31, 2019, the unused portion of the grant received in advance is valued at $48,083 (December 31, 2018 – $63,862).

December 31,	**2019**	2018
Balance, beginning of year	**$ 63,862**	$ 3,528
Grants received during the year	**43,675**	61,199
Claims made	**(55,927)**	-
Foreign exchange loss	**(3,527)**	(865)
Balance, end of year	**$ 48,083**	$ 63,862
Maximum grant funds to be received	**41,127**	70,329
Unused portion of grant funds to be received	**89,210**	134,191

There were no submitted claims awaiting approval at December 31, 2019. Included in accrued income is an amount of $58,885 in respect of costs incurred during the year ended December 31, 2019 which have been included in a grant claim made in March 2020.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL

a) Common shares

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

	Ref	Number	Amount
Closing balance December 31, 2017		102,879,224	$9,343,659
Warrants exercised	(i)	8,419,964	1,297,752
Closing balance December 31, 2018		111,299,188	$10,641,411
Warrants exercised	(ii)	20,081,533	1,776,165
Stock options exercised	(iii)	1,620,000	145,635
Closing balance December 31, 2019		**133,000,721**	**$12,563,211**

(i) A total of 8,419,964 warrants were exercised during the year ended December 31, 2018 for a total increase of $1,297,752 in common share value of which $759,475 was cash consideration. Total cash consideration of $753,334 was received during the year ended December 31, 2018 and $6,141 was received during the year ended December 31, 2017.

- On January 12, 2018, a total of 150,000 advisory warrants were exercised at a price of $0.04 (£0.035 per common share for total cash consideration of £5,246 ($6,141) in relation to the December 30, 2016 warrants issuance. Cash consideration was received in December 2017.
- On January 12, 2018, a total of 2,006,060 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £132,400 ($179,998) in relation to the June 15, 2016 warrants issuance.
- On January 25, 2018, a total of 1,566,650 warrants were exercised at a price of $0.09 ($0.066) per common share for total cash consideration of £103,453 ($139,798) in relation to the June 15, 2016 warrants issuance.
- On January 25, 2018, a total of 150,000 warrants were exercised at a price of $0.11 (C$0.15) per common share for total cash consideration of C$22,500 ($17,192) in relation to the July 31, 2015 warrants issuance.
- On January 26, 2018, a total of 1,546,212 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £102,050 ($144,793) in relation to the June 15, 2016 warrants issuance.
- On March 1, 2018, a total of 351,909 warrants were exercised at a price of $0.12 (C$0.15) per common share for total cash consideration of C$52,748 ($41,182) in relation to the July 31, 2015 warrants issuance.
- On September 6, 2018, a total of 504,545 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £33,300 ($42,756) in relation to the June 15, 2016 warrants issuance.
- On September 17, 2018, a total of 50,000 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £3,300 ($4,316) in relation to the June 15, 2016 warrants issuance.
- On September 27, 2018, a total of 714,285 advisory warrants were exercised at a price of $0.05 (£0.035) per common share for total cash consideration of £25,000 ($32,740) in relation to the October 26, 2017 warrants issuance.
- On October 19, 2018, a total of 1,133,333 warrants were exercised at a price of $0.11(C$0.15) per common share for total cash consideration of C$170,000 ($129,727) in relation to the October 19, 2015 warrants issuance.
- On November 16, 2018, 50,000 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £3,300 ($4,237) in relation to the June 15, 2016 warrants issuance.
- On November 26, 2018, 146,970 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £9,700 ($12,432) in relation to the June 15, 2016 warrants issuance.
- On December 17, 2018, 50,000 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £3,300 ($4,163) in relation to the June 15, 2016 warrants issuance.

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

(ii) During the year ended December 31, 2019, a total of 20,081,533 warrants (note 8b) were exercised for a $1,776,165 total increase in common share value of which $1,687,093 was cash consideration.

- On March 20, 2019, a total of 1,136,363 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £75,000 ($99,267) in relation to the June 15, 2016 warrants issuance.
- On April 11, 2019, a total of 515,151 warrants were exercised at a price of $0.09 (£0.066) per common share for total cash consideration of £34,000 ($44,449) in relation to the June 15, 2016 warrants issuance.
- On June 3, 2019, a total of 878,030 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £57,950 ($73,110) in relation to the June 15, 2016 warrants issuance.
- On June 5, 2019, a total of 325,779 warrants were exercised at a price of $0.08 ($0.066) per common share for total cash consideration of £21,501 ($27,255) in relation to the June 15, 2016 warrants issuance.
- On June 17, 2019, a total of 17,226,210 warrants were exercised at a price of $0.08 (£0.066) per common share for total cash consideration of £1,136,930 ($1,443,012) in relation to the June 15, 2016 warrants issuance.

(iii) On January 1, 2019, 1,620,000 stock options of the Company were exercised for an increase in common share valuation of $145,635 of which $75,811 was cash consideration.

b) Derivative financial instruments

The exercise price of the share purchase warrants is fixed in Pound Sterling ("GBP" or "£") 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 (Canadian Dollar "CAD")	Weighted Average Exercise Price (GBP)	Weighted Average Years Remaining	Number of Warrants	Amount
Balance at December 31, 2017	$ 0.39	£ 0.066	1.27	41,775,799	$ 1,698,267
Warrants exercised	0.15	0.066	1.05	(7,555,679)	(521,458)
Warrants expired	0.15	-	-	(5,864,758)	-
Foreign exchange effect	-	-	-	-	(63,246)
Realized fair value change	-	-	-	-	166,032
Unrealized fair value change	-	-	-	-	(487,474)
Balance at December 31, 2018	$ 0.60	£ 0.066	0.40	28,355,362	$ 792,121
Warrants exercised	0.60	0.066	-	(20,081,533)	(89,073)
Warrants expired	-	-	-	(8,273,829)	-
Foreign exchange effect	-	-	-	-	(2,679)
Realized fair value change	-	-	-	-	(8,280)
Unrealized fair value change	-	-	-	-	(692,089)
Balance at December 31, 2019	-	-	-	-	**$ -**

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

8. SHARE CAPITAL (continued)

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

Revaluation at,	On exercise	December 31, 2018
Risk free interest rate (%)	1.67	1.64
Expected volatility (%)	108-129	89 – 91
Share price (CAD)	$0.08	$0.12
Foreign exchange rate	1.29	1.36
Remaining life (years)	0.03 – 0.24	0.23 – 0.25

c) Share-based payments

(i) Stock options

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, 2019 is $265,087 (2018 - $136,976). 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, 2019		*December 31, 2018*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**10,845,000**	**$0.06**	9,840,000	$0.06
Exercised	**(1,620,000)**	**$0.05**	-	-
Granted – 2018	**-**	**-**	1,005,000	$0.16
Granted – March 11, 2019	**1,900,000**	**$0.11**	-	-
Granted – August 29, 2019	**1,900,000**	**$0.08**	-	-
Total options	**13,025,000**	**$0.07**	10,845,000	$0.07
Vested options	**9,197,500**	**$0.06**	8,420,000	$0.06

The following provides a summary of the stock option plan as at December 31, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 – 0.12	**13,025,000**	**7.7**	**$ 0.07**	**9,197,500**
	13,025,000	**7.7**	**$ 0.07**	**9,197,500**

(Reported in US dollars unless indicated otherwise)

8. SHARE CAPITAL (continued)

The following provides a summary of the stock option plan as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.06 - 0.16	**10,845,000**	**8.0**	**$ 0.07**	**8,420,000**
	10,845,000	**8.0**	**$ 0.07**	**8,420,000**

The fair value of each share-based payment option granted is estimated as of the grant date using the Black-Scholes option-pricing model. The following assumptions were used to arrive at the fair value for the options that were issued August 29, 2018, March 11, 2019 and August 29, 2019:

	Aug 29, 2018	Mar 11, 2019	Aug 29, 2019
Risk free interest rate (%)	2.22	1.75	1.14
Expected life (yrs)	10.0	10.0	10.0
Expected volatility (%)	155	127	125
Dividends	Nil	Nil	Nil
Forfeiture rate (%)	5.0	5.0	5.0
Weighted average fair value at issuance	$0.12	$0.10	$0.08

(ii) Broker warrants

The following provides a summary of the Company’s outstanding broker warrants as at December 31, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.087	**13,200,000**	**1.0**	**$ 0.087**	**13,200,000**
$ 0.087	**13,200,000**	**1.0**	**$ 0.087**	**13,200,000**

The following provides a summary of the Company’s outstanding broker warrants as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.084	**13,200,000**	**2.0**	**$ 0.084**	**13,200,000**
$ 0.084	**13,200,000**	**2.0**	**$ 0.084**	**13,200,000**

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, 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 31, 2020.

During 2016, the Company entered into the “Collaboration Agreement” with Noble Group (“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, 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 31, 2020.

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST

As of December 31, 2019, Mkango beneficially owns 51% of Lancaster BVI and Talaxis owns a 49% non-controlling interest and holds 49% of the voting rights. On March 28, 2019, Lancaster BVI received the most recent Talaxis investment, £7 million ($9,255,853), which increased the non-controlling interest from 20% to 49%. Since the investment was received on March 28, 2019, only a portion of the shared Lancaster BVI income is included in the calculations for total loss attributable to non-controlling interest and total comprehensive loss attributable to non-controlling interest for the year ended December 31, 2019.

Lancaster Malawi is a wholly owned subsidiary of Lancaster BVI. Therefore, Talaxis also owns a 49% non-controlling interest of Lancaster Malawi ("Consolidated Lancaster").

Lancaster BVI

On January 19, 2018, Talaxis invested £2 million ($2,772,822) and on January 24, 2018, Talaxis invested a further £3 million ($4,091,728) in Consolidated Lancaster. The investments were pursuant to the agreement dated November 16, 2017, whereby, Talaxis was entitled to receive up to a 49% interest in Mkango's subsidiary, Consolidated Lancaster, by investing an aggregate of £12 million in Consolidated Lancaster due in three tranches to complete the bankable feasibility study. On March 21, 2019, Mkango announced that it had filed the updated NI 43-101 Technical Resource Report ("Technical Report") for the Songwe Hill Rare Earths Project. The filing of the Technical Report meant that Mkango had fulfilled the condition for Talaxis to advance the third and final tranche of investment, in accordance with the May 18, 2018 definitive agreements between Mkango and Talaxis. On March 28, 2019, £7 million ($9,255,853) was received from Talaxis, which increased the Talaxis ownership in Consolidated Lancaster to 49%.

On May 18, 2018, Mkango signed the Songwe Joint Venture Agreement, the Talaxis Investment Agreement and the Cooperation Deed (the "Definitive Agreements") in relation to the Talaxis Agreement. Talaxis has been granted an option to acquire a further 26% interest in Lancaster BVI by arranging funding, including investing the equity component, for development of the Songwe Hill Rare Earths Project, which, based on the pre-feasibility study prepared by MSA Group (Pty) Ltd dated December 1, 2015, would total US$216 million, following the completion of the bankable feasibility study. If the Option is exercised, Mkango will hold a 25% interest in Lancaster BVI, free carried until production.

The Company paid cash finders' fees totalling $168,823 following the receipt of the second tranche of the Talaxis investment and a further $182,801 following the receipt of the third tranche of the Talaxis investment to Zenith. Including legal fees the total share issue expenses were $188,826 (2018: $169,883).

The Talaxis non-controlling interest ("NCI") is as follows:

	Talaxis NCI Ownership	
	December 31, 2019	**December 31, 2018**
Lancaster BVI	49%	20%

	Condensed consolidated Lancaster Financials as of	
	December 31, 2019	**December 31, 2018**
Net loss	$(3,290,223)	$(6,758,885)
Total loss attributable to non-controlling interest	**(1,342,339)**	**(1,351,777)**
Comprehensive loss	(3,292,004)	(6,757,636)
Total comprehensive loss attributable to non-controlling interest	**(1,343,212)**	**(1,351,527)**
Current assets	6,563,269	1,198,043
Non-current assets	95,880	75,359
Current liabilities	(275,489)	(281,954)
Non-current liabilities	(12,720,337)	(13,103,146)
Net assets	**(6,336,677)**	**(12,111,698)**

(Reported in US dollars unless indicated otherwise)

9. NON-CONTROLLING INTEREST (continued)

	Condensed consolidated Lancaster Financials as of December 31, 2019	December 31, 2018
Cash flows used in operating activities	(3,481,761)	(5,785,814)
Cash flows provided by financing activities	9,067,027	6,864,550
Cash flows used in investing activities	(50,350)	(83,908)
Effect of exchange rate changes on cash	(156,164)	(10,517)
Net increase in cash	**$5,378,752**	**$984,671**

Maginito

As at December 31, 2019, Mkango beneficially owns 75.5% of Maginito and Talaxis owns a 24.5% non-controlling interest and holds 24.5% of the voting rights.

On January 24, 2018, Talaxis invested £1 million ($1,274,947) to receive a 24.5% interest in Maginito. Maginito 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 included expenditures under an agreement with Metalysis Limited ("Metalysis") focused on advanced alloys using neodymium or praseodymium with other elements for magnet development. Payment of an additional £1 million was conditional on completion of a definitive Investment Agreement in respect of Maginito and successful completion of the second phase of the research and development programme with Metalysis, upon which Talaxis will hold a 49% interest in Maginito.

On June 6, 2019, the Company announced that it had been notified by Metalysis that Metalysis had entered administration (receivership). On July 5, 2019, it was reported in the media that Power Resources Group ("PRG") was purchasing Metalysis.

The Company is in contact with PRG to determine if there is a mutually beneficial way forward for the collaboration. However, there is no guarantee that a new agreement, superceding the joint venture with Metalysis, can be arranged. The Company is also discussing with Talaxis restructuring the agreement in relation to the additional £1m investment into Maginito.

Mkango retains a 75.5% interest in Maginito. Maginito is continuing to evaluate new downstream opportunities relating to the rare earths supply chain including the proposed investment in HyProMag Limited, which was announced on September 23, 2019.

The Talaxis non-controlling interest ("NCI") is as follows:

	Talaxis NCI Ownership	
	December 31, 2019	**December 31, 2018**
Maginito	24.5%	24.5%

	Condensed consolidated Lancaster Financials as of December 31, 2019	December 31, 2018
Net loss	$(115,285)	$(418,212)
Total loss attributable to non-controlling interest	**(28,245)**	**(102,462)**
Comprehensive loss	(86,552)	(400,812)
Total comprehensive loss attributable to non-controlling interest	**(21,205)**	**(98,199)**
Current assets	867,672	875,283
Current liabilities	(80,090)	(1,148)
Net assets	**787,582**	**874,135**

9. NON-CONTROLLING INTEREST (continued)

	Condensed consolidated Lancaster Financials as of	
	December 31, 2019	**December 31, 2018**
Cash flows used in operating activities	(38,121)	(417,067)
Cash flows provided by financing activities	-	1,274,947
Effect of exchange rate changes on cash	(30,510)	17,403
Net increase in cash	**$(7,611)**	**$875,283**

10. FINANCIAL INSTRUMENTS

Determination of fair values

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

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

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

Warrant derivative financial instruments are measured at level 2.

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

Financial risk management

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

Foreign currency risk

- The functional and presentation currency of the Company is the US dollar. The Company enters into transactions denominated in the CAD, the US dollar, the Euro, the GBP, the Australian dollar, the South African Rand and Malawian Kwacha. The Company raises its equity in the CAD, and the GBP, and then purchases the US dollar, the Australian dollar, the South African Rand, the Euro and the Malawian Kwacha to settle liabilities. The Company minimizes exposure to foreign exchange loss by converting funds to the appropriate currencies upon receipt of funding based on the expected use of the various foreign currencies. The Company's exposure to foreign currency risk as at December 31, 2019 and 2018, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

(Reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

	December 31, 2019	December 31, 2018
Cash:		
Canadian Dollar	**$ 78,622**	$ 66,138
United States Dollar	**2,435,854**	4,530
Pound Sterling	**4,131,522**	2,203,377
Euro	**476,002**	-
Malawian Kwacha	**34,168**	126,657
Australian Dollar	**2,373,849**	-
Warrants – derivative financial instruments	**-**	(792,121)
Due to related parties	**(57,733)**	(335,804)
	$ 9,472,284	$ 1,272,777

A 5% reduction in the value of the CAD, Euro, GBP and Australian Dollar in comparison to the US Dollar would cause a change in net loss of approximately $350,000 (2018: $113,476). A 5% change in the value of the Malawian Kwacha in relation to the US 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 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 require the Company to conduct equity issuances or obtain other forms of financing.

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

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2019:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	$ 410,645	$ 410,645	$ -
Due to related parties	$ 57,733	$ 57,733	$ -

(Reported in US dollars unless indicated otherwise)

10. FINANCIAL INSTRUMENTS (continued)

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2018:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	$ 353,347	$ 353,347	$ -
Due to related parties	$ 335,804	$ 335,804	$ -
Warrants	$ 792,121	$ 792,121	$ -

Credit risk

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

11. COMMITMENTS

The Company was granted the Phalombe Licence for the Songwe property on January 21, 2010. The license was issued by the Government of Malawi on a three-year basis. The license was subsequently renewed for a third time during December 2018 for a further two years, valid January 21, 2019 to January 21, 2021. 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, 2019 – 734 Malawian Kwacha ("MWK") to 1 USD):

Exploration commitments, 2 years	$ 204,329
Ground rent, 2 years (1 year paid)	11,566
Total commitment	$ 215,895

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 Government of Malawi 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 9, 2021. 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, 2019 – 734 MWK to 1 USD):

Exploration commitments, 2 years	$ 34,055
Ground rent, 2 years (1 year paid)	1,865
Total commitment	$ 35,920

On November 10, 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 Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license will be up for renewal on November 10, 2020. 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, 2019 – 734 MWK to 1 USD):

Exploration commitments, 3 years	$ 102,165
Ground rent, 3 years (2 years paid)	1,341
Total commitment	$ 103,506

(Reported in US dollars unless indicated otherwise)

11. COMMITMENTS (continued)

On May 13, 2019, the Company was granted an additional exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 868.69 square kilometres in Mchinji district, Malawi. The license was originally issued by the Government of Malawi on a three-year basis, and will be available for renewal every two years, thereafter. The license will be up for renewal on May 13, 2022. The future spending commitments for exploration expenses with the Government of Malawi are 50,000,000 Kwacha over three years (foreign exchange rate as at December 31, 2019 – 734 MWK to 1 USD):

Exploration commitments, 3 years	$ 68,110
Ground rent, 3 years (1 year paid_	23,666
Total commitment	$ 91,776

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. RESTRICTED CASH

At December 31, 2019, the Company had restricted cash totalling $ nil (2018 – $8,738). This amount related to two bonds that were issued by Lancaster Malawi on May 25, 2018, to the Malawi Revenue Authority, customs and excise division, for the temporary importation of drilling equipment. The bonds were retired when the drilling equipment was returned to its country of origin and the importation taxes and duties paid in full.

13. 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,	**2019**	2018
Net loss before taxes	**$ (3,039,236)**	$ (7,176,128)
Statutory tax rate	**26.5%**	27%
Expected tax recovery	**(805,398)**	(1,937,555)
Increase (decrease) in taxes:		
Revaluation of warrants	**(183,404)**	(131,591)
Share-based payments	**70,248**	36,984
Foreign exchange	**1,954**	(17,076)
Tax rate differential between Canada and foreign jurisdictions	**783,542**	1,432,802
Change in deferred tax assets not recognized	**133,058**	616,436
Tax expense (recovery)	**$ -**	$ -

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.

For the year ended December 31,	**2019**	2018
Evaluation and exploration costs	**7,403,061**	7,036,473
Loss carry forwards _Canada	**3,737,531**	3,620,176
Loss carry forwards - Malawi	**4,002,836**	3,841,385
Due to related parties	**-**	16,047
Share issue costs	**169,255**	351,971
	$15,313,223	$ 14,866,052

(Reported in US dollars unless indicated otherwise)

13. TAXES (continued)

As at December 31, 2019, the Company had $3,737,531 (2018 –$3,620,176) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	Amount $
2028	59,574
2029	24,878
2030	45,423
2031	171,637
2032	329,614
2033	448,661
2034	518,248
2035	487,120
2036	457,967
2037	461,344
2038	615,839
2039	117,356
	$ 3,737,531

As at December 31, 2019, the Company had $4,002,836 (2018 – $3,841,385) in non-capital losses available to claim against future taxable income in Malawi. These non-capital losses do not expire.

The deductible temporary differences attributable to subsidiaries in the BVI have not been disclosed as those subsidiaries are not subject to income tax in the BVI.

14. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of $12,225,788, as at December 31, 2019 (December 31, 2018 –$3,348,605 Restated – Note 15). The operations of the Company for the next 12 months are currently being funded by investments from Talaxis which total £12 million ($16 million) of which the first and second tranches were received during the year ended December 31, 2018 and the third tranche was received on March 28, 2019 (Note 9), from an additional investment of £1 million ($1.3 million) in Maginito during 2018, from the proceeds received upon the exercise of warrants (Note 8(a)(i) and (ii)) and from the proceeds received upon the exercise of stock options (Note 8(a)(iii)).

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.

15. PRIOR PERIOD ADJUSTMENT

During the period ended December 31, 2019, the Company identified a prior period adjustment in respect of accounting for non-controlling interest. As such, the Company has retrospectively restated its previously reported consolidated financial statements to reflect the overstated amounts.

The prior period consolidated non-controlling interest and retained reserve has been reduced by $1,689,535 to reflect the proportion of equity retained by Talaxis on investment directly in shares in Lancaster BVI and Maginito Limited of $1,372,910 and $316,625 respectively.

Restated 2018	As previously reported	2018 adjustment	As restated
Consolidated Statement of Financial Position			
Deficit	(9,461,379)	(1,689,535)	(11,150,914)
Non-controlling interest	(3,897,713)	1,689,535	(2,208,178)

15. PRIOR PERIOD ADJUSTMENT (continued)

There was no effect on the Consolidated Statements of Comprehensive Loss or Cash Flows or on net loss per share as a result of the restatement.

In addition, the loss per share figure for 2018 was restated to $0.053 per share from $0.066 per share to reflect the correct calculation using the loss attributable to the common shareholders rather than the total loss for the year.

16. SUBSEQUENT EVENTS

On January 10, 2020 the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling. Maginito has invested an initial £300,000 for a 25% interest in HyProMag and has an option to invest a further £1 million to increase its interest up to 49%.

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the governments of countries in which the Company operates regarding travel, business operations and isolation/quarantine orders.

Whilst the Feasibility Study is continuing with work underway in Australia, South Africa and the UK, the Company believes it is inevitable that some work streams will be impacted, however the degree of impact is currently uncertain. Following a review of the various ongoing work streams, the Company is now targeting completion of the Feasibility Study in the second half of 2021, in line with an anticipated more stable market environment and favourable backdrop to advance project development. We note, however, that extended periods of COVID-19 disruption may further impact this timing.

Operations at HyProMag are continuing where possible, in line with current UK government guidelines. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by countries to fight the virus.