Condensed Interim Consolidated Financial Statements

MKANGO RESOURCES LTD.

For the three and nine months ended September 30, 2021 and 2020

Unaudited condensed interim consolidated financial statements. In accordance with National Instrument 51-102 released by the Canadian Securities administrators, the Company discloses that its auditors have not reviewed these condensed interim consolidated financial statements for the three and nine months ended September 30, 2021 and 2020.

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

As at	Notes	September 30, 2021	December 31, 2020
ASSETS			
Current			
Cash		6,248,312	4,924,567
Government remittances receivable		116,336	106,436
Other receivables		3,555	2,119
Prepaid expenses and accrued income		125,627	94,867
Total current assets		6,493,830	5,127,989
Property and equipment	5	44,446	64,536
Investment in associate	6	567,892	586,863
Total assets		7,106,168	5,779,388
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	1,172,798	254,927
Due to related parties	7	44,419	34,172
Total liabilities		1,217,217	289,099
SHAREHOLDERS' EQUITY			
Share capital	9	18,647,738	12,563,211
Shares to be issued reserve		554,600	346,983
Contributed surplus		3,656,226	3,495,724
Accumulated other comprehensive income		107,116	120,897
Retained deficit		(9,776,574)	(6,313,809)
Total shareholders' equity of parent		13,189,106	10,213,006
Non-controlling interest	10	(7,300,155)	(4,722,717)
Total equity		5,888,951	5,490,289
Total liabilities and shareholders' equity		7,106,168	5,779,388

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 three months ended September 30, 2021	2020	For the nine months ended September 30, 2021	2020
Expenses					
General and administrative		**$535,918**	$330,098	**$1,606,607**	$1,301,115
Mineral project expenditures		**1,747,926**	610,275	**4,245,092**	1,788,255
		2,283,844	940,373	**5,851,699**	3,089,370
Other items					
Interest income		**(3,530)**	(8)	**(10,509)**	(20)
Share of associated company (income)/losses	6	**25,566**	13,012	**(15,351)**	29,076
Fair value losses	6	**9,008**	-	**25, 554**	-
Foreign exchange (gain)/loss		**189,661**	(159,984)	**184,325**	111,422
		220,705	(146,980)	**184,019**	140,478
Net loss		**$2,504,549**	$793,393	**$6,035,718**	$3,229,848
Net loss attributable to					
Common shareholders		**1,471,189**	396,848	**3,462,765**	1,822,011
Non-controlling interest		**1,033,360**	396,545	**2,572,953**	1,407,837
Attributable net loss		**2,504,549**	$793,393	**6,035,718**	$3,229,848
Other comprehensive loss Items that may be reclassified subsequently to net loss					
Exchange difference on translating foreign operations		**22,639**	(25,992)	**18,266**	12,395
Total comprehensive loss		**$2,527,188**	$767,401	**$6,053,984**	$3,242,243
Total comprehensive loss attributable to					
Common shareholders		**1,491,023**	373,591	**3,476,546**	1,825,242
Non-controlling interest	10	**1,036,165**	393,810	**2,577,438**	1,417,001
Attributable comprehensive loss		**$2,527,188**	$767,401	**$6,053,984**	$3,242,243
Net loss per share – basic and diluted		**$(0.010)**	$(0.003)	**$(0.025)**	$(0.014)

Refer to accompanying notes to the consolidated financial statements.

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

	Notes	For the nine months ended September 30, 2021	2020
Cash flow used by operating activities			
Net (loss) for the period		**$(6,035,718)**	$(3,229,848)
Items not affecting cash:			
Share based payments	9(b)	**193,827**	109,682
Share of associated company (income)/losses	6	**(15,351)**	29,076
Fair value losses	6	**25,554**	-
Depreciation	5	**23,397**	23,583
Unrealized foreign exchange movements		**195,659**	69,852
Change in non-cash operating capital			
Government remittances receivable and prepaid expenses		**(42,095)**	41,246
Due to related parties		**10,247**	(16,856)
Accounts payable and accrued liabilities		**917,871**	(28,434)
Cash flow used by operating activities		**(4,722,609)**	(3,001,699)
Cash flow provided by financing activities			
Issue of shares	9(a)	**6,130,702**	-
Share subscription	9(a)	**554,600**	
Share issue expenses	9(a)	**(426,483)**	-
Cash flow provided by financing activities		**6,258,819**	-
Cash flow used by investing activities			
Investment in associate	6	**-**	(641,930)
Acquisition of property, plant and equipment	5	**(3,307)**	-
Cash flow used by investing activities		**(3,307)**	(641,930)
Effect of exchange rate changes on cash		**(205,158)**	(106,177)
Change in cash		**1,323,745**	(3,749,806)
Cash at the beginning of the period		**4,924,567**	9,530,017
Cash at the end of the period		**$6,248,312**	$5,780,211

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	Shares to be issued reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling Interest ("NCI")	Total
Balance at December 31, 2019		12,563,211	-	3,969,283	106,413	(4,413,119)	(2,912,015)	9,313,773
Share based payments	9(b)	-	-	109,682	-	-	-	109,682
Total comprehensive income		-	-	-	(12,395)	(1,822,011)	(1,417,001)	(3,251,407)
Balance at September 30, 2020		12,563,211	-	4,078,965	94,018	(6,235,130)	(4.329,016)	6,172,048
Balance at December 31, 2020		12,563,211	346,983	3,495,724	120,897	(6,313,809)	(4,722,717)	5,490,289
Issue of shares	9(a)	6,549,029	207,617	(71,344)	-	-	-	6,685,302
Share issue costs	9(a)	(464,502)	-	38,019	-	-	-	(426,483)
Share based payments	9(b)	-	-	193,827	-	-	-	193,827
Total comprehensive income		-	-	-	(13,781)	(3,462,765)	(2,577,438)	(6,053,984)
Balance at September 30, 2021		**18,647,738**	**554,600**	**3,656,226**	**107,116**	**(9,776,574)**	**(7,300,155)**	**5,888,951**

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

Mkango Resources Ltd ("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 is to develop new sustainable sources of neodymium, praseodymium, dysprosium and terbium to supply accelerating demand from electric vehicles, wind turbines and other clean technologies. The Company has been awarded various 100% owned exploration licences in the Republic of Malawi, Africa, including the 100% owned Phalombe exploration licenses reissued as 11 five year retention licences ("Phalombe rare earth Licenses"), the 100% owned Thambani exploration licenses reissued as 4 five year retention licences ("Thambani Uranium Licenses"), the Chimimbe exploration license ("Chimimbe Nickel Cobalt License") and the Mchinji Exploration license ("Mchinji Rutile Gold License"). In parallel, the Company is advancing complementary downstream opportunities in the rare earths supply chain through Maginito Limited ("Maginito"), Mkango Rare Earths UK Limited ("Mkango UK"), focused on rare earth magnet recycling, and Mkango Polska Sp. z o.o. ("Mkango Polska"), focused on rare earth separation.

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 10). 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 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 10). 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.

On March 22, 2021 Mkango Polska, incorporated under the laws of Poland, was acquired by the Company. Mkango Polska is 100% owned by Mkango. Mkango Polska's registered office is located at ul. Kolejowa 45/147, 01-210, Warsaw, Poland.

On June 23, 2021, Mkango UK was incorporated under the laws of England and Wales. Mkango UK is 100% owned by Mkango.

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 November 29, 2021.

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's consolidated cash balance at September 30, 2021 was $6,248,312 and working capital was $5,276,613. The Company's cash requirement for the next twelve months relates mainly to the completion of its Definitive Feasibility Study ("**Feasibility Study**") for its Songwe Hill Project. Following the private placement which raised approximately $7.2 million net of expenses, the Company's cash flow forecast reflects that the Company will have sufficient funding to meet its planned expenditure for at least the next 12 months. However, risks to the forecast include the risks of the timing of the publication of the Feasibility Study and the risk of over-spend. Under these circumstances, the Company could require additional funding over the period. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. To address this material uncertainty, the Directors have identified a range of options to mitigate these risks and to

2. GOING CONCERN (continued)

ensure sufficient funding is available, including the timing of the expenditure which is largely at the discretion of the directors and the ability to draw on other available funding resources.

In considering going concern the Directors have taken into account the possible ongoing impact of the COVID-19 pandemic, 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 Malawi, Australia, South Africa and the UK, the Company believes that some work streams may still be impacted, however the degree of impact is currently uncertain. The Company is targeting completion of the Feasibility Study in the first quarter of 2022. The Company notes, however, that extended periods of COVID-19 disruption may further impact this timing.

Operations at HyProMag are continuing in line with current UK government guidelines.

At this time, it is unknown the extent of the ongoing impact the COVID-19 pandemic 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.

The directors are satisfied that the Company has sufficient funding resources in order to meet its committed expenditure for at least the next 12 months and hence prepare these consolidated financial statements on a going concern basis.

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, 2021.

(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 as at September 30, 2021:

Entity Name	Functional Currency	Ownership Percentage
Lancaster Exploration ("Lancaster BVI")	US Dollar	51% (2020: 51%)
Lancaster Exploration Limited ("Lancaster Malawi")	Malawi Kwacha	51% (2020: 51%)
Maginito Limited ("Maginito")	Pound Sterling	75.5% (2020: 75.5%)
MKA Exploration Limited ("MKA Exploration")	US Dollar	100% (2020: 100%)
MKA Exploration Limited ("MKA Exploration Malawi")	Malawi Kwacha	100% (2020: 100%)

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.

3. BASIS OF PRESENTATION (continued)

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.

(ii) Investment in associate

The investment in HyProMag Limited includes the initial equity investment, the option to acquire further shares and the convertible loan. Both the convertible loan and the option to acquire further shares were a condition of the subscription of 25% of the share capital of the associate and therefore considered as part of the investment.

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) Impairment of investment in associate

In considering whether there is any impairment to the carrying value of the investment in the associate management considered whether there were any indicators of impairment. They reviewed the financial statements and budgeted cash flows for the associate which did not show any indications of financial difficulty and considered the technology applied by the associate which is innovative and proven. The Company concluded that no impairment indicators were evident.

(ii) Measurement of the fair value of options and loans related to investment in associate

The Company has made estimates in determining the fair value of the option to acquire further shares in its associate and options held by the Company and its associate's options to convert the loan and the fair value of the convertible loan to its associate. The Company uses different option-pricing models to determine the fair value of the various options and considers the probability of whether the loan will be converted or not. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields and expected life of the instruments issued. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of initial recognition and at each period end.

(Reported in US dollars unless indicated otherwise)

3. BASIS OF PRESENTATION (continued)

(b) Accounting standards, amendments and interpretations effective in 2021

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

The following new standards, amendments or interpretations applicable to periods beginning on or after 1 January 2021 were each effective as of 1 January 2021:

Covid 19-Related rent Concession (Amendment to IFRS 16)
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate benchmark Reform – Phase 2

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

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future periods and which the Group has chosen not to adopt early, as detailed below. None of these are expected to have a significant effect on the Group.

	Effective Date
Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2022
IFRS 17 Insurance Contracts, including Amendments to IFRS 17	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) and Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023

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.

4. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020. Details outlining the Company's accounting policies are contained in the notes to the financial statements for the year ended December 31, 2020.

5. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Cost					
Balance at December 31, 2020	289	50,350	48,397	80,011	179,047
Additions	-	-	3,307	-	3,307
Balance at September 30, 2021	**289**	**50,350**	**51,704**	**80,011**	**182,354**

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
Accumulated Depreciation					
Balance at December 31, 2020	289	12,587	47,423	54,212	114,511
Depreciation	-	7,553	842	15,002	23,397
Balance at September 30, 2020	**289**	**20,140**	**48,265**	**69,214**	**137,908**
Net Book Value					
December 31, 2020	-	37,763	974	25,799	64,536
September 30, 2021	**-**	**30,210**	**3,439**	**10,797**	**44,446**

(Reported in US dollars unless indicated otherwise)

6. INVESTMENT IN ASSOCIATE

In January 2020 the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling, incorporated in England and Wales. Maginito has invested an initial $391,650 (£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%. On May 1, 2020 the Company invested a further $250,280 (£200,000) in HyProMag under a convertible loan facility agreement dated January 9, 2020. The convertible loan has a maturity date of April 30, 2023, carries interest at 5% per annum and is unsecured. On November 3, 2021 HyProMag exercised its right to convert into shares of HyProMag the £200,000 convertible loan, increasing Mkango's interest from 25% to 41.6%.

	September 30, 2021	**December 31, 2020**
Cost		
Balance at December 31, 2020	586,863	-
Additions	-	641,930
Share of post-acquisition income/(losses)	15,351	(40,239)
Fair value losses	(25,554)	(49.583)
Foreign exchange difference	(8,768)	34,755
Balance at September 30, 2021, December 31, 2020	**567,892**	**586,863**

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

	September 30, 2021	**December 31, 2020**
Assets and liabilities		
Non-current assets	359,901	440,417
Current assets	263,484	115,869
Current liabilities	(36,346)	(9,163)
Non-current liabilities	(268,780)	(284,375)
Net assets	318,259	262,748
Company's share of net assets	79,565	65,687
Results		
Revenue	-	-
(Profit)/Loss	(61,403)	160,597

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

7. 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 nine months ended September 30, 2021, the Company had incurred costs of $47,051 (September 30, 2020 - $56,400) for reimbursed exploration and administrative expenses. As of September 30, 2021, the Company has an outstanding advance to Leo Mining in the amount of $9,186 (September 30, 2020 – $355). The amount is unsecured and due on demand.

b) Talaxis is considered a related party 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 nine months ended September 30, 2021, the Company has incurred costs of $15,700 (September 30, 2020 - $12,000). As of September 30, 2021, the Company has an outstanding payable of $6,900 to Zenith (September 30, 2020 – $4,000). The current liabilities due to Zenith are unsecured, due on demand and non-interest bearing.

(Reported in US dollars unless indicated otherwise)

7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

d) The Company incurred costs of $443,267 (September 30, 2020 – $508,572) for key management fees and director fees for the nine months ended September 30, 2021. The non-executive Directors of the Company are each entitled to a fee of $17,600 per year and the Chairman of the Board is entitled to a fee of $44,000 per year.

September 30,	**2021**	2020
Consulting fees	**342,173**	329,239
Director fees	**82,350**	72,798
Share-based payments	**18,744**	106,535
Total key management compensation	**443,267**	508,572

As of September 30, 2021, the Company had an outstanding payable due to directors and officers of $46,705 (September 30, 2020 – $37,232). The current liabilities due to key management and directors are unsecured, due on demand and non-interest bearing were as follows:

September 30,		**2021**	2020
Due to related parties with common directors	7 (a)(c)	**(2,286)**	3,645
Due to key management and directors	7 (d)	**46,705**	37,232
Total due to related parties		**44,419**	40,877

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
Accounts payable	**1,039,876**	**98,567**
Other payables	**8,258**	**5.380**
Accrued liabilities	**124,664**	**150,980**
	1,172,798	**254,927**

9. 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, 2019 and September 30, 2020		133,000,721	12,563,211
Closing balance December 31, 2020		133,000,721	12,563,211
Warrants exercised	(i)	2,200,000	346,983
Issued in exchange for services	(ii)	325,000	71,344
Issued for cash	(iii)	18,424,163	5,666,201
Closing balance September 30, 2021		**153,949,884**	**18,647,738**

(Reported in US dollars unless indicated otherwise)

9. SHARE CAPITAL (continued)

(i) In December 2020, the terms of 12,000,000 warrants held by Talaxis were amended to allow a cashless exercise of the warrants for 1,000,000 common shares. In addition, 1,200,000 warrants held by Zenith Advisory Services Pty. Ltd. were exercised for cash of £79,200 ($106,897). On January 12, 2021, 2,200,000 shares were issued and an amount of $346,983 was transferred from the shares to be issued reserve to share capital.

(ii) On January 31, 2021, 325,000 common shares of the Company were issued under the terms of the advisory agreement with Bacchus Capital Advisers Limited and an amount of $71,344 was credited to share capital.

(iii) On August 11, 2021, 18,424,163 common shares of the company were issued for $0.33 (GBP 0.24). In addition a subscription of $554,600 was received for the issue of 1,666,666 common shares to be issued following approval at the AGM held on October 6, 2021. The amount of $554,600 was credited to the shares to be issued reserve. Share issue expenses of $464,502 were incurred including a share-based payment charge of £38,019 relating to the issue of 351,765 broker warrants which are exercisable at $0.33 (GBP 0.24) for a period of one year from the date of issue of August 16, 2021.

b) 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 nine months ended September 30, 2021 is $193,827 (September 30, 2020 - $109,682). 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:

	September 30, 2021		*December 31, 2020*	
	Options	***Weighted–average exercise price***	*Options*	*Weighted–average exercise price*
Opening	**11,820,000**	**$0.07**	13,025,000	$0.06
Cancelled	**-**	**-**	(837,500)	$0.10
Forfeited	**-**	**-**	(367,500)	$0.10
Total options	**11,820,000**	**$0.07**	11,820,000	$0.07
Vested options	**11,820,000**	**$0.07**	10,610,000	$0.06

The following provides a summary of the stock option plan as at September 30, 2021:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 - 0.13	**11,820,000**	**5.9**	**$ 0.07**	**11,820,000**

The following provides a summary of the stock option plan as at December 31, 2020:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (yrs.)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.05 – 0.13	**11,820,000**	**6.7**	**$ 0.07**	**10,610,000**

(ii) Share-based payments

The Company appointed a strategic and financial adviser in December 2020. Under the terms of the advisory agreement the advisor received a fee of US$30,000 and, 325,000 common shares on January 31, 2021, and will receive a further 625,000 common shares on December 18, 2021 should its engagement continue with the Company until such date. A share-based payment charge of $71,344 was recognised on the issue of 325,000 common shares on January 31, 2021 and a share-based payment charge of $137,199 is being recognised to December 18, 2021 in respect of the issue of 625,000 common shares.

(Reported in US dollars unless indicated otherwise)

10. NON-CONTROLLING INTEREST

As of September 30, 2021, 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%.

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 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 Feasibility study. If the Option is exercised, Mkango will hold a 25% interest in Lancaster BVI, free carried until production.

Subsequent to the end of the period the Company has acquired 100% of Lancaster BVI and the Definitive Agreements have been terminated.

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

	Talaxis NCI Ownership	
	September 30, 2021	**December 31, 2020**
Lancaster BVI	49%	49%

	Condensed consolidated Lancaster Financials as of	
	September 30, 2021	**December 31, 2020**
Net loss	(5,245,068)	(3,657,046)
Total loss attributable to non-controlling interest	**(2,570,083)**	**(1,791,951)**
Comprehensive loss	(5,248,859)	(3,695,745)
Total comprehensive loss attributable to non-controlling interest	**(2,571,940)**	**(1,793,274)**
Current assets	303,651	2,499,891
Non-current assets	44,446	64,536
Current liabilities	(933,544)	(212,120)
Non-current liabilities	(14,663,436)	(12,348,728)
Net liabilities	**(15,248,883)**	**(9,996,421)**
Cash flows used in operating activities	(2,236,860)	(4,101,271)
Cash flows provided by financing activities	-	-
Cash flows used in investing activities	(3.307)	-
Effect of exchange rate changes on cash	24,650	70,711
Net decrease in cash	**(2,215,517)**	**(4,032,758)**

(Reported in US dollars unless indicated otherwise)

10. NON-CONTROLLING INTEREST (continued)

Maginito

As at September 30, 2021, 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 is focused on downstream green technology opportunities in the rare earths supply chain, encompassing neodymium (NdFeB) magnet recycling as well as innovative rare earth alloy, magnet and separation technologies.

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 investment in HyProMag Limited which was made in January 2020.

Subsequent to the end of the period the Company has acquired 100% of Magnito.

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

		Talaxis NCI Ownership
	September 30, 2021	**December 31, 2020**
Maginito	24.5%	24.5%

	September 30, 2021	**Maginito Financials as of December 31, 2020**
Net income/(loss)	(11,715)	(90,635)
Total loss attributable to non-controlling interest	**(2,870)**	**(22,206)**
Comprehensive income/(loss)	(22,440)	(71,132)
Total comprehensive loss attributable to non-controlling interest	**(5,498)**	**(17,428)**
Current assets	126,118	129,588
Non-current assets	567,892	586,863
Current liabilities	-	-
Net assets	**694,010**	**716.451**
Cash flows used in operating activities	(13,490)	(109,075)
Cash flows used in investing activities	-	(641,930)
Effect of exchange rate changes on cash	-	3,759
Net decrease in cash	**(13,490)**	**(747,246)**

Movements in NCI

Balance brought forward	**(4,722,717)**	**(2,912,015)**
Total comprehensive loss attributable to non-controlling interests:		
Lancaster BVI	(2,571,940)	(1,793,274)
Maginito	(5,498)	(17,428)
Total	(2,577,438)	(1,810,702)
Balance carried forward	**(7,300,155)**	**(4,722,717)**

11. 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.

The option to acquire shares in the associate and the convertible loan derivative financial instruments are measured at level 3. The fair value of these financial instruments was determined using binomial pricing models for American and Bermudan style options. The key input to these models is the volatility rate which was in the range of 67 to 70% which is an estimate based on volatility rates of comparable companies to Mkango Resources Limited. A 10% increase in the volatility rate would result in an additional charge to the income statement of $15,000 and a 10% decrease would result in a credit to the income statement of $18,000.

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.

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 September 30, 2021 and December 31, 2020, is most significantly influenced by the following cash amounts held in foreign currencies (amounts shown in US dollars):

	September 30, 2020	December 31, 2020
Cash:		
Canadian Dollar	**394**	78,559
United States Dollar	**146,883**	586,954
Pound Sterling	**6,074,185**	2,602,026
Euro	**17,335**	288,469
Malawian Kwacha	**6,284**	18,438
Australian Dollar	**3,231**	1,350,121
	6,248,312	4,924,567

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 $305,000 (December 31, 2020: $216,000). 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 bank. However, the interest rate risk is expected to be minimal. The Company does not presently hedge against interest rate movements.

(Reported in US dollars unless indicated otherwise)

11. FINANCIAL INSTRUMENTS (CONTINUED)

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 September 30, 2021:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	1,172,798	1,172,798	-
Due to related parties	44,419	44,419	-

The following table outlines the maturities of the Company's financial liabilities as at December 31, 2020:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	254,927	254,927	-
Due to related parties	34,172	34,172	-

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.

12. 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 were 150,000,000 Kwacha ($200,535) over two years which have been met. On June 1, 2021 the Phalombe Licence was transferred into 11 retention licences covering a total of 250 sq km. Each retention licence is for a 5 year period from the June 1, 2021 and will be transferred into a mining licence once the Feasibility Study and ESHIA have been finalized.

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 was subsequently renewed for a further 2 years to September 9, 2021. The Company has subsequently been granted 4 retention licences for a period of five years to November 9, 2026.

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 was due for renewal on November 10, 2020 and has been renewed for a period of two years to November 10, 2022.

(Reported in US dollars unless indicated otherwise)

12. 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 commitment for exploration expenses with the Government of Malawi under the license is 50,000,000 Kwacha ($67,568) over three years which had been met by September 30, 2021.

The Company is continuing to meet the terms and conditions of its 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.

13. LOSS PER SHARE

The calculation of basic earnings per share for the nine months to September 30, 2021 was based on the loss attributable to ordinary shareholders of $3,462,765 (September 30, 2020: loss $1,822,011) and a weighted average number of Ordinary Shares outstanding during the period ended September 30, 2021 of 139,103,986 (September 30, 2020: 133,000,721) calculated as follows:

	September 30, 2021	September 30, 2020
Loss attributable to the ordinary shareholders	**$3,462,765**	$1,822,011
Number of Ordinary shares outstanding at beginning of year	**133,000,721**	**133,000,721**
Effect of shares issued during the period	**6,103,265**	**-**
Weighted average number of Ordinary shares outstanding	**139,103,986**	**133,000,721**
Loss per share	**0.025**	**0.014**

14. CAPITAL MANAGEMENT

The Company's total capital consists of Mkango's shareholders' equity of $13,189,106, as at September 30, 2021 (December 31, 2020 –$10,213,006). The operations of the Company for the next 12 months will be funded by existing cash resources as a result of the restructuring and complementary fundraising referred to in note 15.

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 has no externally imposed capital requirements.

15. SUBSEQUENT EVENTS

On November 1, 2021, the Company announced the closing of the transaction for the restructuring of Talaxis' interests in both the Songwe Hill Rare Earths Project and Maginito which was announced on August 5, 2021, resulting in the Company owning 100% of the shares of Lancaster and Maginito for the issue of 54,166,666 common shares in the Company. Mkango has also received final approval from the TSX Venture Exchange in respect of the issuances of 2,916,666 Shares to Mr Derek Linfield, Chairman of Mkango, and 1,666,666 Shares to Resource Early Stage Opportunities Company pursuant to the placing announced on August 5, 2021. The Company now has 214,581,548 common shares in issue of which Talaxis has an interest of approximately 32.4%.

On November 3, 2021 the Company announced that Mkango had increased its interest in HyProMag from 25.0 to 41.6% following the exercise of HyProMag's right to convert a loan of £200,000 into shares of HyProMag. The decision to convert the loan was made in light of the strong market backdrop with accelerating demand for rare earth permanent magnets and an increased focus on security of supply and recycling of rare earths.

On November 15, 2021 the Company announced that HyProMag had established a subsidiary in Germany to roll out commercialisation of Hydrogen Processing of Magnetic Scrap technology in Europe and to further support government initiatives to strengthen European rare earth supply chains and accelerate the green transition.