



Consolidated Financial Statements

**MKANGO RESOURCES LTD.**

For the twelve months ended 31 December 2023 and 31 December  
2022

# 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 Group), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive loss, the consolidated statement of changes in equity, and the consolidated statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit 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 Group in accordance with the ethical requirements that are relevant to our audit 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 is dependent on raising funds through either equity investment or an alternative financing structure, which is not guaranteed. 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 Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

#### 1. Accounting for HyProMag Acquisition (Notes 3 and 10)

Description of the key audit matter	How the key audit matter was addressed in the audit
<p>As disclosed in Note 10, the Group completed the acquisition of the remaining 58.4% of the share capital of HyProMag Limited (HyProMag) to increase its ownership to 100% during the year.</p> <p>The HyProMag acquisition meets the definition of a business combination under IFRS 3. The assets and liabilities acquired and the consideration transferred in a business combination are required to be measured at fair value as at the acquisition date.</p> <p>The valuation of the assets and liabilities, particularly the identifiable intangible assets, goodwill, deferred tax, and consideration requires significant estimate and judgement.</p> <p>Given the estimation of the fair values of assets and liabilities and fair value of consideration involve significant judgement,</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>• Obtaining the acquisition agreement and management's paper on the accounting treatment of the HyProMag acquisition and evaluating if the accounting treatment is in line with the requirement of IFRS 3 Business combination and supported by the agreement.</li><li>• Obtaining management's assessment of fair values and assessing management judgement involved in a number of areas primarily: the fair value of the assets and liabilities acquired; the identification and valuation of acquired intangibles and the fair value of the consideration.</li><li>• Assessing the appropriateness of the fair value of the acquired intangibles and critically challenging the appropriateness of estimates used in the valuation model with reference to empirical data and external evidence with specific emphasis on the following assumptions: prices, production profiles, tax rate, inflation and discount rates. As part of our assessment, we visited the</li></ul>

<p>we consider accounting for the acquisition of HyProMag including the related disclosures to be a key audit matter.</p>	<p>short loop recycling facilities for NdFeB magnets at Tyseley Energy Park in Birmingham.</p> <ul style="list-style-type: none"> <li>• Assessing management’s external expert’s work with respect to the appropriateness of the valuation technique, methodology and discount rate applied, with the assistance from our internal valuations experts.</li> <li>• Obtaining the deferred tax calculations and testing the calculation of deferred taxes related to the fair value adjustments.</li> <li>• Assessing the appropriateness of the fair value of the contingent consideration and critically challenging the appropriateness of estimates used in the valuation with reference to empirical data and external evidence with specific emphasis on the following assumptions: the Group’s expectation of the future milestones being met, the timing of the expected payments and discount rates.</li> <li>• Assessing the mathematical accuracy of the goodwill calculation.</li> <li>• Reviewing the disclosures in the financial statements of the HyProMag acquisition and checking if it complies with the requirement of the applicable standard.</li> </ul>
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**Other Information**

Management is responsible for the other information. The other information comprises the information included in the 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 audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the 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 in this auditor’s report. 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 IFRSs, 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 Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’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 judgement and maintain professional scepticism 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 Group'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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

DocuSigned by:

**BDO LLP**

BDO LLP 0365760565403...

Chartered Professional Accountants  
London, United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

30 April 2024

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

	Notes	As at 31 December 2023	As at 31 December 2022
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalent		996,782	493,703
Government remittances receivable	6	107,578	13,736
Other receivables		27,041	24,157
Prepaid expenses and accrued income		195,012	144,140
Due from related parties	12	120,133	4,646
<b>Total current assets</b>		<b>1,446,546</b>	<b>680,382</b>
<b>Non-current</b>			
Intangible assets	7	4,408,784	273,763
Goodwill	10	2,681,441	-
Property, plant and equipment	8	657,074	48,199
Investment in associate	9	-	396,992
Government remittances receivable	6	99,526	127,565
<b>Total non-current assets</b>		<b>7,846,825</b>	<b>846,519</b>
<b>TOTAL ASSETS</b>		<b>9,293,371</b>	<b>1,526,901</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	13	590,990	773,245
Short-term contingent consideration	11	1,382,358	-
Due to related parties	12	61,754	186,426
<b>Total current liabilities</b>		<b>2,035,102</b>	<b>959,671</b>
<b>Non-current</b>			
Long-term contingent consideration	11	1,696,229	-
Convertible loan note	14	-	1,603,696
Embedded derivative liability	15	-	129,650
Deferred tax liability	20	1,000,734	-
<b>Total non-current liabilities</b>		<b>2,696,963</b>	<b>1,733,346</b>
<b>TOTAL LIABILITIES</b>		<b>4,732,065</b>	<b>2,693,017</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	43,522,854	38,376,817
Contributed surplus		5,680,588	5,120,801
Accumulated other comprehensive loss		(70,414)	(23,801)
Retained deficit		(46,585,867)	(44,639,933)
Non-controlling interest		2,014,145	-
<b>TOTAL EQUITY</b>		<b>4,561,306</b>	<b>(1,166,116)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>9,293,371</b>	<b>1,526,901</b>

The notes on pages 10 to 34 are an integral part of these consolidated financial statements.

Going Concern (Note 2)  
 Commitments and contingencies (Note 19)  
 Subsequent Events (Note 23)

The financial statements were approved and authorised for issue by the Board of Directors on 29 April 2024 and signed on its behalf by:



William Dawes, Chief Executive Officer, Director



Derek Linfield, Chairman, Director

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

		<b>For the twelve months ended:</b>	
	<b>Notes</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Expenses</b>			
General and administrative	5	(4,134,980)	(3,470,482)
Mineral project expenditures		(358,542)	(2,402,070)
<b>Total Expenses</b>		<b>(4,493,522)</b>	<b>(5,872,552)</b>
<b>Other items</b>			
Interest income		53	25
Finance expense		(58,356)	-
Share of associated company losses	9	(79,202)	(77,338)
Fair value losses	9	(8,804)	(24,315)
Foreign exchange gain/(loss)		74,543	(134,567)
Fair value adjustment – embedded derivative	15	326,240	122,784
<b>Loss before tax</b>		<b>(4,239,048)</b>	<b>(5,985,963)</b>
Income tax	18	59,097	-
<b>Loss after tax</b>		<b>(4,179,951)</b>	<b>(5,985,963)</b>
<b>Loss attributable to</b>			
Common shareholders		(4,057,025)	(5,985,963)
Non-controlling interest		(122,926)	-
<b>Attributable loss</b>		<b>(4,179,951)</b>	<b>(5,985,963)</b>
<b>Other comprehensive profit/(loss)</b>			
Items that may be reclassified subsequently to net loss:			
Exchange difference on translating foreign operations		(46,613)	(146,179)
<b>Total comprehensive loss</b>		<b>(4,226,564)</b>	<b>(6,132,142)</b>
<b>Total comprehensive loss attributable to</b>			
Common shareholders		(4,103,638)	(6,132,142)
Non-controlling interest		(122,926)	-
<b>Attributable comprehensive loss</b>		<b>(4,226,564)</b>	<b>(6,132,142)</b>
<b>Loss per share - basic and diluted</b>	21	<b>(0.017)</b>	<b>(0.028)</b>

The notes on pages 10 to 34 are an integral part of these consolidated financial statements.

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

		<b>For the twelve months ended:</b>	
	<b>Notes</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Cash flow used by operating activities</b>			
Loss for the period		(4,179,951)	(5,985,963)
Adjustments for:			
Share based payments		559,787	963,988
Issue of shares in exchange for services		69,000	-
Share of associated company losses	9	79,202	77,338
Fair value losses	9	8,804	24,315
Depreciation	8	32,860	18,394
Amortisation of intangible assets	7	220,249	-
Fair value adjustment – embedded derivative		326,240	(122,784)
Unrealised foreign exchange loss/(profit)		(74,543)	176,857
Deferred tax credit		(59,097)	-
Change in non-cash operating capital			
Government remittances receivable and prepaid expens		(235,047)	(95,182)
Due to/from related parties		(124,672)	172,292
Accounts payable and accrued liabilities		(181,273)	(367,776)
<b>Cash flow used by operating activities</b>		<u>(3,558,441)</u>	<u>(5,138,521)</u>
<b>Cash flow used by investing activities</b>			
Acquisition of intangible assets	7	(481,401)	(170,351)
Acquisition of property, plant and equipment	8	(520,153)	(26,016)
Acquisition of HyProMag – cash consideration	10	(1,271,086)	-
Cash acquired as part of acquisition	10	231,029	-
<b>Cash flow used by investing activities</b>		<u>(2,041,611)</u>	<u>(196,367)</u>
<b>Cash flow generated by financing activities</b>			
Proceeds from CoTec advance notes	14(b)	517,019	1,828,776
Share issue proceeds	16	4,214,600	-
Share issue expenses	16	(282,987)	(2,557)
CoTec investment into Maginito		2,041,862	-
<b>Cash flow generated by financing activities</b>		<u>6,490,494</u>	<u>1,826,219</u>
Effect of exchange rate changes on cash		<u>(387,363)</u>	<u>(444,478)</u>
Change in cash		503,079	(3,953,147)
Cash at the beginning of the period		<u>493,703</u>	<u>4,446,850</u>
Cash at the end of the period		<u>996,782</u>	<u>493,703</u>

The notes on pages 10 to 34 are an integral part of these consolidated financial statements.

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

	Share Capital	Shares to be issued reserve	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Non-controlling interest ("NCI")	Total
<b>Balance at 31 December 2021</b>	<b>38,148,271</b>	<b>231,103</b>	<b>4,156,813</b>	<b>122,378</b>	<b>(38,653,970)</b>	<b>-</b>	<b>4,004,595</b>
Loss for the year	-	-	-	-	(5,985,963)	-	(5,985,963)
Other comprehensive income:							
Foreign exchange losses	-	-	-	(146,179)	-	-	(146,179)
Total comprehensive loss	-	-	-	(146,179)	(5,985,963)	-	(6,132,142)
Transactions with owners:							
Issue of shares	231,103	(231,103)	-	-	-	-	-
Share issue expenses	(2,557)	-	-	-	-	-	(2,557)
Share-based payments	-	-	963,988	-	-	-	963,988
Total transactions with owners	228,546	(231,103)	963,988	-	-	-	961,431
<b>Balance at 31 December 2022</b>	<b>38,376,817</b>	<b>-</b>	<b>5,120,801</b>	<b>(23,801)</b>	<b>(44,639,933)</b>	<b>-</b>	<b>(1,166,116)</b>
Loss for the period	-	-	-	-	(4,057,025)	(122,926)	(4,179,951)
Other comprehensive income							
Foreign exchange losses	-	-	-	(46,613)	-	-	(46,613)
Total comprehensive loss	-	-	-	(46,613)	(4,057,025)	(122,926)	(4,226,564)
Transactions with owners:							

Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	2,041,862	2,041,862
Conversion of convertible loan note into Maginito shares	-	-	-	-	2,111,091	95,209	2,206,300
Issue of shares	5,429,024	-	-	-	-	-	5,429,024
Share issue expenses	(282,987)	-	-	-	-	-	(282,987)
Share based payments	-	-	559,787	-	-	-	559,787
<b>Balance at 31 December 2023</b>	<b>43,522,854</b>	<b>-</b>	<b>5,680,588</b>	<b>(70,414)</b>	<b>(46,585,867)</b>	<b>2,014,145</b>	<b>4,561,306</b>

The notes on pages 10 to 34 are an integral part of these consolidated financial statements.

# MKANGO RESOURCES LTD

## Notes to the Financial Statements

For the twelve months ended 31 December 2023 and 31 December 2022

All figures in US dollars unless indicated otherwise

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### 1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

The consolidated financial statements were authorised for issuance by the Board of Directors of the Company on 29 April 2024.

## 2. GOING CONCERN

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

The Group's consolidated cash balance as at 31 December 2023 was \$996,782 and the Group had net current liabilities of \$588,556 (including current contingent consideration of \$1,382,358 as disclosed in Note 11 relating to the HyProMag acquisition which can be settled through shares or cash at the election of the Group if certain milestones are met). On 10 April 2024, the Company raised gross proceeds of approximately \$950,000 (£750,000) via a private placing totaling 15,000,000 new common shares without par value each in the Company at a price of 5 pence ("p") (approximately \$0.06) per share (Note 23). On 26 April 2024, the Group had a cash balance of \$1,023,827.

This placing has allowed the Group to acquire additional equipment to underpin HyProMag's transition to first commercial sales of recycled NdFeB at Tyseley Energy Park in Birmingham, UK which is targeted for the second half (H2) of 2024; and German recycling development including orders of long lead time equipment in Germany, unlocking additional grant funding.

Discussions are ongoing with potential strategic investors, project finance providers, grant funding bodies and on other sources to finance recycling scale-up opportunities and further technology roll-out.

The Group has completed a significant cost-cutting exercise in recent months, whilst streamlining operations to focus on recycling, which has enabled a 35% reduction in the operating cost requirements for the business.

Post year end, Mkango has launched a review of strategic options for its advanced stage Songwe Hill Rare Earth Project in Malawi and Pulawy Rare Earth Separation Project in Poland.

Management has prepared a detailed cash flow forecast for the period to 30 April 2025. The base case forecast demonstrates that the Group will require additional funding in Q4 of 2024 in order to have sufficient funds to meet its liabilities as they fall due. The base case forecast includes the following key assumptions:

- First commercial sales of recycled NdFeB at Tyseley Energy Park in Birmingham in H2 2024
- German recycling development to continue as planned with grant funding unlocked
- Minority shareholder to maintain their interest in Maginito through matching cash calls required for recycling businesses
- Any contingent consideration relating to the HyProMag acquisition will be settled through the issuing of shares as opposed to cash
- Additional funding in Q4 of 2024

The directors are confident that the Company will be able to raise funds through either equity investment or an alternative financing structure in order to have sufficient funding resources in order to meet its committed expenditure for at least the next 12 months from the date of approval of the financial statements and hence have prepared these consolidated financial statements on a going concern basis. However, risks to the cash flow forecast include a delay in commencement of commercial sales, the risks of higher costs than anticipated and the risk of being unable to secure future funding in Q4 of 2024. The Company is dependent on raising funds through either equity investment or an alternative financing structure which is not guaranteed. As at the date of the approval of these financial statements no such further funding has been raised and there can be no certainty that sufficient funds can be raised if required. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern. Having given due consideration to the cash requirements of the Group, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. For this reason, the Board continues to adopt the going concern

basis in preparing these consolidated financial statements which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

### 3. BASIS OF PRESENTATION

#### (a) Statement of compliance

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

#### (b) Basis of presentation and measurement

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

#### (c) Functional and presentation currency and principles of consolidation

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

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

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

#### (d) Basis of consolidation

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

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

Subsidiaries are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders’ proportionate share of the acquiree’s

identifiable net assets (after any relevant fair value adjustments to the assets, liabilities and contingent liabilities recognised as part of the business combination).

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

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

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

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

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

(ii) Carrying value of exploration and evaluation intangible assets

The carrying value was \$679,131 at 31 December 2023 (31 December 2022: \$273,763). The group has determined that there are no indicators of impairment present in accordance with *IFRS 6: Exploration for and evaluation of mineral interests*. Management's conclusion required judgement based on the current status as outlined in the definitive feasibility completed on Songwe Hill in July 2022 and expected future progress of the exploration and evaluation intangible assets as well as forecast rare earth prices.

(iii) Carrying value of technology intangible assets

The carrying value was \$3,729,653 at 31 December 2023 (31 December 2022: Nil). The group has determined that there are no indicators of impairment present in accordance with *IAS 6: Impairment of assets*. Management's conclusion required judgement based on the fact that the value of the HPMS technology had not significantly declined from the date of the HyProMag acquisition and year end and that plans are on track to both the recycling projects in the UK and Germany that use the technology.

(iv) Valuation of Goodwill

The carrying value of goodwill arising from the HyProMag acquisition (Note 10) was \$2,681,441 at 31 December 2023 (31 December 2022: Nil). The recoverable amount of goodwill is assessed at each reporting date for impairment. The recoverable amount is based on the higher of the value in use and fair value less costs to dispose. 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. Key areas of judgement include estimates of scrap supply, commissioning timetables, product mix, pricing of magnets and operating cost estimates.

(v) Fair value of contingent consideration

The fair value of the contingent consideration was estimated based on the Group's expectation of the future performance of the business which would result in milestones being met and milestone payments being made to the HyProMag sellers. These potential milestone payments have been discounted to reflect the timing of the expected payments.

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

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

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

(ii) Share options

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

(iii) Valuation of embedded derivative financial liability

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

**(f) Accounting standards, amendments and interpretations effective in 2024**

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

The following new standards, amendments or interpretations were adopted from 1 January 2024:

IFRS 17 Insurance Contracts;

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

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

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

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

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

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

#### 4. MATERIAL ACCOUNTING POLICIES

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

##### (a) Mineral exploration expenditures and property and equipment assets

###### (i) Recognition and measurement

###### *Exploration and evaluation (“E&E”) expenditures*

Exploration and evaluation costs which would typically include pre-licensing, preliminary property evaluation, drilling and directly attributable general and administrative costs are recognised in the consolidated statement of comprehensive loss as mineral exploration expenditures..

E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalised under full cost accounting, as intangible exploration and evaluation assets. The costs are capitalised pending determination of technical feasibility and commercial viability.

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

###### *Property and equipment (“P&E”) expenditures*

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

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

###### (ii) Subsequent costs

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

###### (iii) Depletion and depreciation

The net carrying value of development or production assets will be depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves,

taking into account estimated future development costs necessary to bring those mineral reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

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

**(b) Investment in associate (prior year)**

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

**(c) Externally acquired intangible assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset: The technology-based intangible asset, being the patented technology for the HPMS process, was valued using an income approach that focuses on the future benefits generated by the Company. The relief from royalty approach ("RFR") has been adopted. The intangible asset is being amortised over the remaining term of the patent (i.e. 7.42 years from acquisition date).

**(d) Goodwill**

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

**(e) 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.

**(f) Impairment**

**(i) Non-financial assets**

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. The carrying amounts of the Company's other non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

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

**(g) 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. Expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in profit or loss.

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

**(h) Taxation**

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally

enforceable right to offset, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

**(i) Earnings per share**

Basic earnings per share 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 earnings per share 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").

**(j) Share-based payments**

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

**(k) Cash and cash equivalent**

Cash and cash equivalent is comprised of cash on hand as well as cash in bank accounts.

**(l) Provisions**

The Company makes a distinction between:

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

**(m) 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 two principal classification categories for financial assets: measured at amortised cost and fair value through profit or loss (“FVTPL”). The classification categories are as follows:

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

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

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

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

#### *Impairment of financial assets*

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

## 5. GENERAL AND ADMINISTRATIVE EXPENSES

The loss for the year includes the following material items:

	<b>Year ended 31 December 2023</b>	<b>Year ended 31 December 2022</b>
Audit fees	155,705	118,385
Salaries	1,648,454	1,245,785
Share-based payments	559,787	963,995
Depreciation – Note 8	32,860	28,394
Amortisation of intangible assets – Note 7	220,249	-

## 6. GOVERNMENT REMITTANCES RECEIVABLE

	<b>31 December 2023</b>	<b>31 December 2022</b>
Recoverable within one year	107,578	13,736
Recoverable after one year	<u>99,526</u>	<u>127,565</u>
	<u>207,104</u>	<u>141,301</u>

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

## 7. INTANGIBLE ASSETS

	Exploration & evaluation assets	Technology	Total
<b>Cost</b>			
<b>Balance at 31 December 2021</b>	-	-	-
Additions	273,763	-	273,763
<b>Balance at 31 December 2022</b>	<b>273,763</b>	-	<b>273,763</b>
Additions	405,368	3,949,902	4,355,270
<b>Balance at 31 December 2023</b>	<b>679,131</b>	<b>3,949,902</b>	<b>4,629,033</b>
<b>Accumulated Amortisation</b>			
<b>Balance at 31 December 2021</b>	-	-	-
Amortisation	-	-	-
<b>Balance at 31 December 2022</b>	-	-	-
Amortisation	-	220,249	220,249
<b>Balance at 31 December 2023</b>	-	<b>220,249</b>	<b>220,249</b>
<b>Net Book Value</b>			
31 December 2022	273,763	-	273,763
<b>31 December 2023</b>	<b>679,131</b>	<b>3,729,653</b>	<b>4,408,784</b>

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

The technology intangible assets additions relate to the HyProMag acquisition (Refer to Note 10).

## 8. PROPERTY AND EQUIPMENT

	Office Equipment	Plant and equipment	Computer Equipment	Vehicles	Total
<b>Cost</b>					
Balance at 31 December 2022	289	72,090	60,256	80,011	212,646
Additions	-	595,203	-	-	595,203
Acquisition of HyProMag Limited	-	27,024	4,794	-	31,818
Foreign exchange differences	-	15,196	-	-	15,196
<b>Balance at 31 December 2023</b>	<b>289</b>	<b>709,513</b>	<b>65,050</b>	<b>80,011</b>	<b>854,863</b>
<b>Accumulated Depreciation</b>					
Balance at 31 December 2022	289	32,816	51,331	80,011	164,447
Depreciation	-	28,861	3,999	-	32,860
Foreign exchange differences	-	482	-	-	482
<b>Balance at 31 December 2023</b>	<b>289</b>	<b>62,159</b>	<b>55,330</b>	<b>80,011</b>	<b>197,789</b>
<b>Net Book Value</b>					
31 December 2022	-	39,274	8,925	-	48,199
<b>31 December 2023</b>	<b>-</b>	<b>647,354</b>	<b>9,720</b>	<b>-</b>	<b>657,074</b>

## 9. INVESTMENT IN ASSOCIATE

In January 2020, the Company announced that its subsidiary Maginito had completed the acquisition of an initial 25% interest in HyProMag Limited ("HyProMag"), a company focused on rare earth magnet recycling, incorporated in England and Wales. Maginito invested an initial \$391,650 (£300,000) for a 25% interest in HyProMag and had an option to invest a further £1 million to increase its interest up to 49%. On 1 May 2020, the

Company invested a further \$250,280 (£200,000) in HyProMag under a convertible loan facility agreement dated 9 January 2020. The convertible loan was converted at the option of HyProMag on 21 October 2021, increasing Mkango’s interest to 41.6%.

On 2 August 2023, Maginito Limited (“Maginito”) completed the acquisition of the remaining 58.4% of the share capital of HyProMag Limited (“HyProMag”) to increase its ownership to 100% of the share capital of HyProMag for a total consideration of \$5,759,361. (Refer to Note 10)

	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Cost</b>		
Opening balance	396,992	556,677
Share of post-acquisition losses	(79,202)	(77,338)
Fair value losses	(8,804)	(24,315)
Foreign exchange difference	19,568	(58,032)
Elimination of investment in associate at date of acquisition (Refer to Note 10)	(328,554)	-
<b>Closing balance</b>	<u>-</u>	<u>396,992</u>
	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Cost or valuation</b>		
Shares	-	508,402
Share of post-acquisition losses	-	(120,133)
Options	-	8,723
<b>Total investment</b>	<u>-</u>	<u>396,992</u>

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

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

The results of HyProMag Limited before 2 August 2023 were equity accounted for and included in the financial statements of the Company.

## 10. HYPROMAG ACQUISITION

On 2 August 2023, Maginito Limited (“Maginito”) completed the acquisition of the remaining 58.4% of the share capital of HyProMag UK to increase its ownership to 100% of the share capital of HyProMag UK for a total consideration of \$5,759,361. As a result of the acquisition, the Group is expected to utilize the patented HPMS technology for its own magnet recycling projects.

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

	<b>Fair values</b>
Intangible asset - technology	3,949,902
Property, plant and equipment	31,818
Trade and other receivables	5,263
Cash	231,029
Trade and other payables	(80,261)
Deferred tax liability	<u>(1,059,831)</u>

<b>Total fair value</b>	<b>3,077,920</b>
Consideration	<u>5,759,361</u>
<b>Goodwill</b>	<b><u>2,681,441</u></b>

The fair values include recognition of an intangible asset related to technology of \$3,949,902 which will be amortised over 7.42 years on a straight-line basis. The goodwill of \$2,681,441 comprises the potential value of future technology, the value of the existing workforce and the value of the use of 20% of the production capacity of a pilot plant, all of which are not separately recognised. Deferred tax of \$1,059,831 has been calculated on the value of the intangible assets acquired at an effective corporation tax rate of 26.83%, which is the effective tax rate over the amortisation period, and a corresponding amount recognised as goodwill. Directly related acquisition costs of \$92,262 have been expensed to the income statement.

None of the acquiree companies had revenue in the period from 1 January 2023 through to 2 August 2023, the acquisition date. The loss for the acquiree companies in the period from 1 January 2023 through to 2 August 2023 was \$158,057.

#### **Purchase consideration**

Completion cash	1,271,086
Fair value of previously held interest	328,554
Completion equity	1,145,424
Contingent consideration	<u>3,014,297</u>
<b>Total consideration</b>	<b><u>5,759,361</u></b>

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

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

The contingent consideration is based on future milestone payments and has been considered a financial liability and has been discounted to present value at a rate of 7.4% under *IFRS 9: Financial Instruments* to \$3,014,297. At acquisition date and year end date, management believe that these milestones will be reached and so no adjustment to contingent consideration (other than the passing of time) has been made.

The net cash sum expended on acquisition during the year ended 31 December 2023 is as follows:

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

#### **Impairment of goodwill and intangible assets**

The recoverable amount of goodwill is assessed at each reporting date for impairment. The recoverable amount is based on the higher of the value in use and fair value less costs to dispose. 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. Key inputs include estimates of scrap supply, commissioning timetables, product mix, pricing of magnets, operating cost estimates and discount rate.

Pricing of magnets is based on management's estimates for future prices and are based on external views of future magnet prices. Magnet prices were benchmarked against the cost of a N42H block in China being CNY270/kg (US\$37.61/kg). The discount rate is based on estimate of the weighted average cost of capital for a

market participant which includes estimates for risk-free interest rates, cost of equity, asset-specific risk, and debt-to-equity financing ratio. The discount rate used in the impairment model was 18.8%.

Following assessment, the HyProMag CGU was not impaired, as the recoverable amount exceeded the carrying value.

A sensitivity analysis was performed to identify the impact of changes in the key assumptions in the impairment analysis, which included magnet prices and discount rate as these are the most significant assumptions that impact the recoverable value of the assets.

An increase in discount rate by 10% or reduction in magnet prices by 10% would not have any impact on the carrying value of the CGU.

## 11. CONTINGENT CONSIDERATION

The contingent consideration arose as a result of future milestone payments being included in the purchase consideration relating to the HyProMag acquisition.

The contingent consideration shall become payable in four instalments if milestones are met, by way of issuing common shares in Mkango or in cash, at Mkango's option.

At acquisition and at year end, management have assumed that each milestone would be met in full and have forecasted as such.

	<b>31 December 2023</b>
Opening balance	-
Acquisition of HyProMag	3,014,297
Finance expense	59,662
Foreign exchange difference	4,628
<b>Closing balance</b>	<b><u>3,078,587</u></b>
Split between:	
Current liabilities	1,382,358
Non-Current liabilities	1,696,229

## 12. RELATED-PARTY TRANSACTIONS AND BALANCES

(a) Key management compensation was as follows:

<b>Year ended 31 December 2023</b>	<b>Consulting fees/ Salaries</b>	<b>Director fees</b>	<b>Share option charge</b>	<b>Total</b>
A Lemon	237,794	-	107,869	345,663
W Dawes	237,794	-	107,869	345,663
D Linfield	-	87,028	40,991	128,019
S Muir	-	25,000	19,163	44,163
S Treacy*	-	25,000	19,163	44,163
R Sewell	205,138	-	41,137	246,275
P Varris**	-	14,708	31,700	46,408
S Motteram***	-	-	-	-
Total key management compensation	<u>680,726</u>	<u>151,736</u>	<u>367,892</u>	<u>1,200,354</u>
<b>Year ended 31 December 2022</b>	<b>Consulting fees/ Salaries</b>	<b>Director fees</b>	<b>Share option charge</b>	<b>Total</b>
A Lemon	236,031	-	324,406	560,437

W Dawes	227,405	-	324,406	551,811
D Linfield	-	87,704	108,555	196,259
S Muir	-	25,000	27,139	52,139
S Treacy*	-	25,000	27,139	52,139
R Sewell**	103,366	-	15,126	118,492
S Motteram	-	-	-	-
Total key management compensation	<u>566,802</u>	<u>137,704</u>	<u>826,771</u>	<u>1,531,277</u>

\* paid to Zenith Advisory Services Pty Limited

\*\* appointed 24 May 2023

\*\*\* resigned 14 December 2023

**(b) Share options granted to key management were as follows:**

<b>Year ended 31 December 2023</b>	<b>Outstanding at beginning of year</b>	<b>Granted</b>	<b>Exercised</b>	<b>Outstanding at end of year</b>
A Lemon	4,200,000	287,500	-	4,487,500
W Dawes	4,200,000	287,500	-	4,487,500
D Linfield	3,160,000	250,000	-	3,410,000
S Muir	1,195,000	175,000	-	1,370,000
S Treacy	1,195,000	175,000	-	1,370,000
R Sewell	350,000	375,000	-	725,000
P Varris	-	400,000	-	400,000
S Motteram	-	-	-	-
	<u>14,300,000</u>	<u>1,950,000</u>	<u>-</u>	<u>16,250,000</u>

<b>Year ended 31 December 2022</b>	<b>Outstanding at beginning of year</b>	<b>Granted</b>	<b>Exercised</b>	<b>Outstanding at end of year</b>
A Lemon	4,200,000	-	-	4,200,000
W Dawes	4,200,000	-	-	4,200,000
D Linfield	3,160,000	-	-	3,160,000
S Muir	1,195,000	-	-	1,195,000
S Treacy	1,195,000	-	-	1,195,000
R Sewell	-	350,000	-	350,000
S Motteram	-	-	-	-
	<u>13,950,000</u>	<u>350,000</u>	<u>-</u>	<u>14,300,000</u>

**(c) Other related-party transactions**

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

As of 31 December 2023, the Company owed Leo Mining an amount of \$12,431 (31 December 2022: (\$4,646)). The amount is unsecured and due on demand. Mkango re-imbursed Leo Mining \$77,157 for costs incurred by Leo Mining on behalf of Mkango during the year ended 31 December 2023 (31 December 2022: \$41,114)

CoTec Holdings ("CoTec") is considered related as they have a 20.6% interest in Maginito.

As of 31 December 2023, CoTec owed the Company \$120,133 (31 December 2022: Nil) relating to costs incurred by the Company relating to the roll-out of HPMS technology into the United States prior to the formation of HyProMag USA LLC. CoTec are responsible for these costs. CoTec re-imbursed the Company for these costs post year end.

The amounts due to related parties were as follows:

	<b>31 December 2023</b>	<b>31 December 2022</b>
Due to key management and directors	49,323	186,426
Due to related parties with common directors (Leo Mining)	<u>12,431</u>	<u>-</u>
Total due to related parties	<u><u>61,754</u></u>	<u><u>186,426</u></u>

The amounts due from related parties were as follows:

	<b>31 December 2023</b>	<b>31 December 2022</b>
Due from related parties with common directors (Leo Mining)	-	4,646
CoTec	<u>120,133</u>	<u>-</u>
Total due from related parties	<u><u>120,133</u></u>	<u><u>4,646</u></u>

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>31 December 2023</b>	<b>31 December 2022</b>
Accounts payable	277,302	574,068
Other payables	68,020	10,173
Government grants received in advance	198,605	96,135
Accrued liabilities	<u>47,063</u>	<u>92,869</u>
	<u><u>590,990</u></u>	<u><u>773,245</u></u>

The government grant received in advance relates to the REEsilience program. This will be utilized against expenditure in FY2024.

## 14. CONVERTIBLE LOAN NOTE

### (a) Accounting treatment of convertible loan note

In the year ended 31 December 2022, Mkango issued 5% convertible notes to CoTec at a total value of \$1,828,776 (£1,547,500). The principal amount of the loan was repayable on 30 June 2024 or could be converted at any time into shares at the holder's option at the rate of \$0.33 (£0.27) per share. Accrued interest was repayable on 30 June 2024 or could be converted at any time into shares at the holder's option at the higher of \$0.33 (£0.27) or the closing share price on the date immediately preceding the date of conversion.

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

The value of the derivative liability component and the host liability were determined at the date the instrument was issued. The fair value of the derivative liability component at inception and year end was calculated using the Black-Scholes model. The derivative liability component is a financial liability measured at fair value through profit or loss. The liability component is a financial liability measured at amortised cost.

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

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

#### Old convertible loan note

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

#### New convertible loan note

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

### (b) Calculations supporting the cash-flow statement

Reconciliation of liabilities from financing transactions:

	31 December 2023	31 December 2022
Opening balance	1,603,696	-
Cash flows	517,019	1,828,776
Non-cash flows:		
Interest	85,585	27,354
Portion recognised as embedded financial derivative	-	(252,434)
Conversion into equity of Maginito	(2,206,300)	-
Closing balance	<u>-</u>	<u>1,603,696</u>

## 15. DERIVATIVE LIABILITY MEASURED AT FAIR VALUE

The derivative liability component of the convertible loan note in Note 14 was measured at fair value and was measured at Level 3. The fair value of this financial instrument was determined using Black-Scholes.

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

### Old derivative liability

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

### New derivative liability

	Level 3	
	31 December 2023	31 December 2022
<b>Opening balance</b>	-	-
Recognised at inception – new embedded derivative	782,009	-
Fair value adjustment	(440,051)	-
Loss on modification	113,811	-
Conversion	(455,769)	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>

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

As at 31 December 2023	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years
Derivative financial liabilities	-	-	-
<b>As at 31 December 2022</b>	<b>Up to 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 2 years</b>
Derivative financial liabilities	-	-	129,650

## 16. SHARE CAPITAL

### (a) Common shares

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

	Ref	Number	Amount (\$)
<b>Closing balance 31 December 2021</b>		<b>214,581,548</b>	<b>38,148,271</b>
Issued in exchange for services	(i)	625,000	228,546
<b>Closing balance 31 December 2022</b>		<b>215,206,548</b>	<b>38,376,817</b>
Issued for cash	(ii)	28,000,000	4,214,600
Share issue expenses	(ii)	-	(282,987)
Issued in exchange for services	(iii)	224,317	34,000
Issued to HyProMag sellers	(iv)	9,742,031	1,145,424
Issued in exchange for services	(v)	280,678	35,000
<b>Closing balance 31 December 2023</b>		<b>253,453,574</b>	<b>43,522,854</b>

- (i) On 10 March 2022, 625,000 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 18 December 2020 to 18 December 2021. An amount of \$228,546 was credited to share capital.
- (ii) On 13 February 2023, Mkango raised gross proceeds of £3.5 million (approximately \$4.2 million) via a placing and subscription totalling 28,000,000 placing shares at a price of 12.5p per share. The net proceeds were £3.3 million (approximately \$4 million).
- (iii) On 2 May 2023, 224,317 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 23 January 2023 to 31 March 2023. An amount of \$34,000 was credited to share capital.
- (iv) On 2 August 2023, 9,742,031 common shares of the Company were issued to the HyProMag sellers as part consideration for the acquisition of the remaining 58.4% of the share capital of HyProMag Limited.
- (v) On 25 August 2023, 280,678 common shares of the Company were issued for settlement of the financial advisory services provided by Bacchus Capital to the Company for the period from 1 April 2023 to 30 June 2023. An amount of \$35,000 was credited to share capital.

**(b) Share-based payments**

- (i) Stock options

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

The share-based payments expense that has been recognised in respect of stock options in the consolidated statements of comprehensive loss for the twelve months ended 31 December 2023 is \$353,308 (31 December 2022: \$810,242). The stock options pursuant to the Plan vest over a term of 18 - 24 months.

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

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

<b>As at 31 December 2022</b>	<b>Options</b>	<b>Weighted-average exercise price (USD)</b>
Opening	15,850,000	0.18
Exercised	-	-
Granted – 8 September 2022	350,000	0.14
Total options	16,200,000	0.16
Vested options	15,045,000	0.15
<b>As at 31 December 2023</b>	<b>Options</b>	<b>Weighted-average exercise price (USD)</b>
Opening	16,200,000	0.16
Exercised	-	-
Granted – 30 May 2023	3,350,000	0.15
Total options	19,550,000	0.16
Vested options	16,298,438	0.16

The following provides a summary of the stock option plan as at 31 December 2023

<i>Range of exercise price (USD)</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price (USD)</i>	<i>Number exercisable</i>
0.04 - 0.37	19,550,000	5.84	0.16	16,298,438

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

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

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

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

(ii) Restricted Share Units

At 31 December 2023 the Company had 4,575,000 (31 December 2022: 4,000,000) Restricted Share Units outstanding. The Restricted Share Units vest over a period of ten years. The Company has recognised a share-based payment charge of \$153,724 (31 December 2022: \$153,745) during the 12-month period ending 31 December 2023.

(c) Broker warrants

On 27 February 2023, the Company issued 1,400,000 non-transferable warrants to the brokers who advised in connection with the placing. Each warrant is exercisable for a period of 12 months with an exercise price of £0.125 (\$0.151) per warrant. The Company has recognised a share-based payment charge of \$54,046 (31 December 2022: \$Nil) during the 12-month period ending 31 December 2023.

The following provides a summary of the Company's outstanding broker warrants as at 31 December 2023:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price</i>
0.151	1,400,000	0.16	0.151

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

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

At 31 December 2022 there were no outstanding broker warrants.

(d) **Reserves**

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

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

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

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

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

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

**17. FINANCIAL INSTRUMENTS**

**Determination of fair values**

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

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

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Equity option	-	-	-
Derivative liability (convertible note) (Note 14)	-	-	-
Balance 31 December 2023	-	-	-

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Equity option	-	-	8,723
Derivative liability (convertible note) (Note 14)	-	-	129,650
Balance 31 December 2022	-	-	138,373

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

**Financial risk management**

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

**Foreign currency risk**

The functional and presentation currency of the Company is the US dollar. The Company enters into transactions denominated in the CAD, the US dollar, the Euro, the GBP, the Australian dollar, the South African Rand and Malawian Kwacha. The Company raises its equity in the CAD, and the GBP, and then purchases the US dollar,

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

	<b>31 December 2023</b>	<b>31 December 2022</b>
Cash:		
Canadian Dollar	882	465
United States Dollar	7,637	937
Pound Sterling	768,781	391,040
Euro	214,557	96,989
Malawian Kwacha	4,845	3,966
Australian Dollar	80	306
	<u>996,782</u>	<u>493,703</u>

A 5% reduction in the value of the CAD, Euro, GBP, MWK and AUD in comparison to the USD would cause a change in net loss of approximately \$49,457 (31 December 2022: \$24,638).

### **Interest-rate risk**

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

### **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 31 December 2023:

	Contractual Cash Flows	Less than 1 Year	Greater than 1 Year
Accounts payable and accrued liabilities	590,990	590,990	-
Due to related parties	61,754	61,754	-

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

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

### **Credit risk**

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

## Financial instruments by category

### Financial Assets

	Fair value through profit or loss		Amortised cost	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Cash	-	-	996,782	493,703
Receivables	-	-	147,174	28,803
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>1,143,956</b>	<b>522,506</b>

### Financial liabilities

Trade and other payables	-	-	652,743	959,671
Loans and borrowings	-	-	-	1,603,696
Derivatives	-	129,650	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>129,650</b>	<b>652,743</b>	<b>2,563,367</b>

## 18. TAXES

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

	For the year ended 31 December 2023	For the year ended 31 December 2022
Losses before taxes	(4,239,048)	(5,985,963)
Statutory tax rate	27%	27%
Expected tax recovery	(1,144,543)	(1,616,210)
Increase (decrease) in taxes:		
Non-deductible expense - share-based payments	151,142	260,279
Tax rate differential between Canada and foreign jurisdictions (30% in Malawi, 0% in BVI, 25% in UK, 19% in Poland, 30% in Germany)	424,041	862,948
Change in deferred tax assets not recognised	569,360	492,983
Deferred tax credit	(59,097)	-
Tax expense (recovery)	(59,097)	-

No deferred tax assets have been recognised 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 31 December 2023	For the year ended 31 December 2022
Exploration and evaluation costs	8,276,898	8,134,134
Loss carry forwards - Canada	8,111,115	6,545,616
Loss carry forwards - UK	1,906,471	793,825
Loss carry forwards - Poland	366,526	204,821
Loss carry forwards - Malawi	5,262,660	4,863,914
Loss carry forwards - Germany	89,640	-
	<u>24,013,310</u>	<u>20,542,310</u>

The tax value of the losses is as follows:

	For the year ended 31 December 2023	For the year ended 31 December 2022
Evaluation and exploration costs	2,483,069	2,440,240
Loss carry forwards - Canada	2,190,001	1,767,316
Loss carry forwards - UK	476,618	198,456
Loss carry forwards - Poland	69,640	38,916
Loss carry forwards - Malawi	1,578,798	1,459,174
Loss carry forwards - Germany	26,892	-
	<u>6,825,018</u>	<u>5,904,102</u>

As at 31 December 2023, the Company had \$8,111,115 (2022 –\$6,545,616) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

	<b>Amount (\$)</b>
2028	61,727
2029	25,643
2030	47,064
2031	177,840
2032	341,526
2033	464,875
2034	536,977
2035	504,724
2036	474,517
2037	478,017
2038	638,095
2039	121,597
2040	162,828
2041	635,896
2042	1,874,290
2043	1,565,499
	<u>8,111,115</u>

As at 31 December 2023, the Company had unutilized exploration and evaluation costs of \$8,276,898 (2022 – \$8,134,134) to claim against future taxable income in Canada. These capital losses do not expire.

As at 31 December 2023, the Company had \$5,262,660 (2022 – \$4,863,914), \$366,526 (2022 - \$204,821), \$1,906,471 (2022 - \$793,825), and \$89,640 (2022 – Nil) in non-capital losses available to claim against future taxable income in Malawi, Poland, UK and Germany respectively. 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.

## **19. COMMITMENTS**

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

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

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

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

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

## 20. DEFERRED TAX LIABILITY

	31 December 2023	31 December 2022
Opening balance	-	-
Deferred tax liability – technology asset (Refer to Note 10)	1,059,831	-
Amortisation of technology asset	<u>(59,097)</u>	<u>-</u>
<b>Closing balance</b>	<b><u>1,000,734</u></b>	<b><u>-</u></b>

## 21. LOSS PER SHARE

The calculation of basic earnings per share at 31 December 2023 was based on the loss attributable to ordinary shareholders of \$4,057,025 (31 December 2022: loss \$5,985,963) and a weighted average number of ordinary shares outstanding during the 12 months ended 31 December 2023 of 238,757,233 (31 December 2022: 215,088,397) calculated as follows:

	31 December 2023	31 December 2022
Loss attributable to the ordinary shareholders (USD)	<u>(4,057,025)</u>	<u>(5,985,963)</u>
Number of ordinary shares outstanding at beginning of year	215,206,548	214,581,548
Effect of shares issued during the period	<u>23,550,685</u>	<u>506,849</u>
Weighted average number of ordinary shares outstanding	<u>238,757,233</u>	<u>215,088,397</u>
Loss per share (USD)	<u>(0.017)</u>	<u>(0.028)</u>

## 22. CAPITAL MANAGEMENT

The Company’s total capital consists of Mkango’s shareholders’ equity of \$4,561,306 as at 31 December 2023 (31 December 2022: \$(1,166,116)).

The Company’s objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimises the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company has no externally imposed capital requirements.

## 23. SUBSEQUENT EVENTS

### a) Equity Fundraising

On 10 April 2024, Mkango raised gross proceeds of £750,000 (approximately \$950,000) via a private placement through the issuance of 15,000,000 common shares of the Company at a price per share of 5 pence. The Company intends to use the net proceeds of the placing to acquire additional equipment to underpin HyProMag’s transition to first commercial sales of recycled NdFeB at Tyseley Energy Park in Birmingham and orders of long lead time equipment in Germany, unlocking additional grant funding. In addition to the Subscription Shares, the Company issued an aggregate of 600,000 warrants to Jub Capital Management LLP (“Jub Capital”). Each warrant is exercisable for a period of three years with an exercise price of 5p per warrant. The warrants (and the underlying shares) are subject to a statutory hold period in Canada expiring on 12 August 2024.