Consolidated Financial Statements of

MKANGO RESOURCES LTD
(formerly Alloy Capital Corp.)

For the years ended December 31, 2011 and 2010

Management's Responsibility

To the Shareholders of Mkango Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors has appointed an Audit Committee, consisting primarily of directors who are neither management nor employees of the Company. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the Shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Signed "Alex Lemon"
Alex Lemon, President

Signed "Sandra Beaulieu"
Sandra Beaulieu, CFO

April 26, 2012

Independent Auditors' Report

To the Shareholders of Mkango Resources Ltd.:

We have audited the accompanying consolidated financial statements of Mkango Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mkango Resources Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance in International Financial Reporting Standards.

Emphasis of Matter

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

MNP LLP

April 26, 2012
Calgary, Alberta

Chartered Accountants

Suite 300, 622 – 5th Ave. S.W., Calgary, Alberta T2P 0M6 Tel: (403) 263-3385 Fax: (403) 269-8450

MNP

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Statements of Financial Position
Reported in US dollars

As at	Notes	**December 31, 2011**	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
ASSETS				
Current				
Cash and cash equivalents		**$ 3,739,420**	$ 7,840,140	$ -
Accounts receivable		**7,101**	21,188	-
Prepaid		**11,204**	-	-
Total currents assets		**3,757,725**	7,861,328	-
Property and equipment	6	**8,775**	288	-
Total assets		**3,766,500**	7,861,616	-
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**132,850**	801,445	-
Due to related party	7	**15,343**	405,449	225,234
Warrants - derivative financial instruments	8(b)	**843,051**	1,580,902	-
Total current liabilities		**991,244**	2,787,796	225,234
EQUITY (DEFICIENCY)				
Share capital	8(a)	**5,632,076**	$ 5,606,017	1,000
Contributed surplus	8(c)	**1,736,877**	457,501	-
Accumulated deficit		**(4,593,697)**	(989,698)	(226,234)
Total equity		**$ 2,775,256**	$ 5,073,820	$ (225,234)
Total liabilities and equity		**$ 3,766,500**	$ 7,861,616	$ -

Going concern	2
Commitments	11
Subsequent events	14

Refer to accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

(signed) "*Eugene Chen*"

Eugene Chen, Director

(signed) "*David Berg*"

David Berg, Director

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Statement of Comprehensive Loss
Reported in US dollars

	Notes	YEAR ENDED December 31, **2011**	2010 (Note 15)
Expenses			
General and administrative		**$ 825,077**	$ 263,691
Mineral exploration expenditures		**2,281,641**	338,863
Depreciation		**1,245**	-
Share based payments	8(d)	**1,279,376**	-
Loss before undernoted		**4,387,339**	602,554
Other items			
Reverse takeover costs	3	**-**	416,139
Public company listing expense	3	**-**	94,848
Interest income		**(14,151)**	(1,737)
Loan forgiveness	7(a)	**-**	(195,401)
Unrealized loss (gain) on revaluation of warrants	8(b)	**(737,851)**	37,138
Realized foreign exchange loss (gain)		**(53,768)**	-
Foreign exchange loss (gain) on translation		**22,430**	(190,077)
Total comprehensive loss attributable to common shareholders		**(3,603,999)**	(763,464)
Net loss per share - basic and diluted		**$ (0.10)**	$ (0.68)
Weighted average shares outstanding basic and diluted		**37,398,471**	1,126,406

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Statement of Changes in Equity
Reported in US dollars

	Share capital	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	$ 1,000	$ -	$ (226,234)	$ (225,234)
Common shares issued	7,625,026	-	-	7,625,026
Share issue costs	(419,783)	-	-	(419,783)
Acquisition of Lancaster	401,039	-	-	401,039
Warrant valuation	(1,543,764)	-	-	(1,543,764)
Broker warrants	(457,501)	457,501	-	-
Total comprehensive loss for the year	-	-	(763,464)	(763,464)
Balance at December 31, 2010	$ 5,606,017	$ 457,501	$ (989,698)	$ 5,073,820
Share based payments	-	1,279,376	-	1,279,376
Stock options exercised	24,582	-	-	24,582
Share issue costs refunded	1,477	-	-	1,477
Total comprehensive loss for the year	-	-	(3,603,999)	(3,603,999)
Balance at December 31, 2011	**$ 5,632,076**	**$ 1,736,877**	**$ (4,593,697)**	**$ 2,775,256**

Refer to accompanying notes to the consolidated financial statements.

MKANGO RESOURCES LTD (formerly Alloy Capital Corp.)
Consolidated Statements of Cash Flows
Reported in US dollars

	Notes	YEAR ENDED December 31, 2011	2010 (Note 15)
Cash flow from operating activities			
Loss for the year		**$ (3,603,999)**	$ (763,464)
Adjustments			
Loan forgiven		**-**	(195,401)
Reverse takeover costs		**-**	312,737
Public company listing expense			94,848
Share based payments	8(d)	**1,279,376**	-
Unrealized loss (gain) on revaluation of warrants	8(b)	**(737,851)**	37,138
Depreciation		**1,245**	**-**
Foreign exchange gain		**(31,338)**	(194,236)
Change in non-cash operating capital			
Accounts receivable and prepaid		**2,882**	(21,188)
Accounts payable and accrued liabilities		**(668,595)**	801,445
Cash from (used by) operating activities		**(3,758,280)**	71,879
Cash flow from financing activities			
Cash acquired on reverse takeover		**-**	312,737
(Repayments to) Advances from related party		**(390,106)**	375,616
Issue of share capital, net of issue costs		**-**	7,205,243
Options exercised		**24,583**	-
Refunded share issue costs		**1,476**	-
Cash from (used) by financing activities		**(364,047)**	7,893,596
Cash flow used in investing activities			
Acquisition of property and equipment		**(9,732)**	(288)
Effect of exchange rate changes on cash		**31,339**	(125,047)
Change in cash		**(4,100,720)**	7,840,140
Cash at the beginning of the year		**7,840,140**	-
Cash at the end of the year		**$ 3,739,420**	$ 7,840,140

Refer to accompanying notes to the consolidated financial statements.

1. GENERAL INFORMATION

The principal business of Mkango Resources Ltd (the “Company” or “Mkango”) is rare earth element and associated minerals exploration and development in the Republic of Malawi, Africa.

The Company was incorporated under the name Alloy Capital Corp. (“Alloy”) on November 13, 2007 under the laws of the Province of Alberta, Canada. On December 20, 2010, Alloy was acquired through a “reverse takeover” by Lancaster Exploration Limited (“Lancaster”). The articles of the Company were amended to change the name of the Company from Alloy Capital Corporation to Mkango Resources Ltd. Mkango’s head office is located at 1400, 700 – 2nd Street SW, Calgary, Alberta Canada, T2P 4V5.

On May 19, 2011, a related company, Lancaster Exploration Limited was incorporated under the laws of Blantyre, Malawi.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

The Company is in the process of acquiring, exploring and developing its mineral interests. The recoverability of the amounts shown for mineral interests are dependent upon the existence of an economically recoverable mineral resource, the ability of the Company to obtain necessary financing to complete the development of such mineral resources, and upon future profitable production. The operations of the Company for the next 12 months will be funded by the equity raised during the share issuance which closed December 20, 2010.

3. REVERSE TAKEOVER

On December 20, 2010, the Company completed a reverse takeover of Alloy Capital Corp. (“Alloy”) (the “Transaction”). Alloy, classified as a capital pool company as defined in the TSXV Policy 2.4, had no significant assets other than cash, and had no commercial operations

The Company is considered to be the accounting acquirer for accounting purposes as the former shareholders of the Company control the consolidated group subsequent to the Transaction. The Transaction is not considered to be a business combination for accounting purposes as Alloy is not considered to be a business for accounting purposes. The Transaction has been accounted for in the consolidated financial statements as the continuation of the financial statements of the Company, together with an issuance of shares, equivalent to the shares held by the former shareholders of Alloy, and a recapitalization of the equity of Mkango. Fair value was based on the latest trading price of Alloy’s shares before the control was transferred.

The consideration of $401,039 was allocated between the identifiable assets and liabilities as follows: $312,737 to cash, $8,625 to accounts receivable, $15,171 to accounts payable and $94,848 was expensed as a public company listing expense. No deferred tax asset was recognized. The following table outlines the net assets acquired:

Cash	$312,737
Other receivables	8,625
Current liabilities	(15,171)
Total net assets acquired	$306,191

4. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements for the year ended December 31, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 Financial Reporting, and are in accordance with IFRS 1, First-time Adoption of IFRS. This is the fourth financial reporting period of the first fiscal year for which the Company has adopted IFRS. These financial statements have been prepared in accordance with the accounting policies the Company adopted as of December 31, 2011. Those accounting policies are based on the IFRS standards and International Financial Reporting Committee ("IFRIC") interpretations that are applicable.

An explanation of how the transition to International Financial Reporting Standards ("IFRS") has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian Generally Accepted Accounting Principles ("GAAP") to those reported for those periods under IFRS.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 26, 2012.

(b) Basis of presentation and measurement

The consolidated financial statements are presented in compliance with IFRS as issued by the International Accounting Standards Board ("IASB"). This is the first year the Company has presented its financial statements using IFRS. Historically, financial statements were prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). As required, a reconciliation has been prepared between Canadian GAAP and IFRS to illustrate the impact the change to IFRS has on the consolidated Company financial statements, see note 15.

The transaction between Lancaster and the Company was deemed a recapitalization takeover whereby Lancaster is considered the parent for accounting purposes. The consolidated financial statements are issued under the name of the legal parent, Mkango Resources Ltd, but are described as a continuation of the financial statements of the legal subsidiary, Lancaster.

These consolidated financial statements have been prepared on an accrual basis under the historical cost convention, except cash flow information.

(c) Functional and presentation currency

The consolidated financial statements are presented in US dollars, which is the functional currency of the Company and its subsidiaries. All values are rounded to the nearest dollar.

(d) Use of estimates and judgments

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

In preparing these consolidated financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are outlined in:

- Measurement of share based payments (Note 8d)
- Measurement of warrant valuation (Note 8b)
- Income taxes (Note 9)
- Foreign exchange (Note 10)
- Determination of fair values (Note 10)

4. BASIS OF PRESENTATION (continued)

(e) New standards and interpretations not yet adopted

IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.

IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRSs, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty and the effect of those measurements on the financial statements. The Corporation is currently assessing the impact, if any, that the adoption of this standard will have on its Consolidated Financial Statements.

IAS 12, 'Income Taxes' was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012.

IAS 27 replaced the existing IAS 27 'Consolidated and Separate Financial Statements'. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. IAS 27 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

The amendment to IAS 19, issued in June 2011, revises the accounting for defined benefit plans to: eliminate the option to defer recognition of actuarial gains and losses (the "corridor approach") by recognizing these in other comprehensive income as they occur; immediately recognize all past service costs; replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and revise the disclosure requirements. Accounting for termination benefits was also revised. The amendment is effective for annual periods beginning on or after January 1, 2013.

IAS 28 was amended in 2011 which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

4. BASIS OF PRESENTATION (continued)

(e) New standards and interpretations not yet adopted (continued)

In June 2011, the IASB issued IAS 1 'Presentation of Items of OCI' and amendments to IAS 1 'Presentation of Financial Statements'. The amendments stipulate the presentation of net earnings and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Company beginning on January 1, 2012 with retrospective application and early adoption permitted. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

The application of these standards, amendments and interpretations are not anticipated to have a material impact on the results or financial position of the Company.

5. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of consolidation

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

(b) Intangible Exploration and Property and Equipment Assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Exploration and evaluation costs which would typically include pre-licensing, preliminary property evaluation, drilling and directly attributable general and administrative costs are recognized in the statement of comprehensive loss as mineral exploration expenditures, including the costs of acquiring licenses pending determination of technical feasibility and commercial viability.

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

Property and equipment ("P&E") expenditures

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

Property and equipment assets, categorized as mineral interests, are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, property and equipment assets categorized as mineral interests are grouped by CGU.

Gains and losses on disposal of an item of property and equipment, including mineral interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the consolidated statement of comprehensive loss.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Intangible Exploration and Property and Equipment Assets (continued)

(ii) Subsequent costs

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

(iii) Depletion and depreciation

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

Office equipment is recorded at cost and is depreciated over the estimated useful life of the asset using the declining balance based on a 20% rate. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(c) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

(d) Decommissioning obligation

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

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(e) Foreign currency translation

The functional and presentation currency of Mkango and its subsidiaries is the United States dollar. Assets and liabilities are translated into the presentation currency at the current exchange rate in effect at the reporting date. Income and expense items are translated at the exchange rate in effect at the date of the transaction or, where the exchange rate does not fluctuate significantly, an average rate which approximates the actual rate in effect at the date of the transaction.

Exchange differences arising upon consolidation between the transactional and functional currency, if any, are recognized as an expense in unrealized foreign exchange gain (loss).

(f) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments.

(h) Share based payments

The Company has issued options to directors, officers, employees and non-employees to purchase common shares. The fair value of options determined using the Black-Scholes option pricing model on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. The fair value of options to non-employees is recognized each reporting date as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Cash and cash equivalents

Cash comprises of cash on hand and term deposits held with banks.

(j) Financial instruments

(i) Non-derivative financial instruments:

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

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

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

Loans and receivables

Other non-derivative financial instruments, such as accounts receivable are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities

Other non-derivative financial instruments, such as accounts payable and accrued liabilities and due to related party are measured at amortized cost using the effective interest method, less any impairment losses.

(i) Derivative financial instruments:

Warrants are derivative financial instruments designated as FVTPL and are measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

(ii) Share capital:

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions

The Company makes a distinction between:

- Provisions: present obligations, either legal or constructive, arising from past events, the settlement of which is expected to give rise to an outflow of resources the amount and timing of which are uncertain; and
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, or present obligations arising from past events the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources.

Provisions are recognized when the liability or obligation giving rise to the indemnity or payment arises, to the extent that its amount can be reliably estimated and it is probable that the commitment will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
Balance at January 1, 2010	$ -	$ -	$ -
Additions	288	-	288
Balance at December 31, 2010	288	-	288
Additions	9,732	-	9,732
Less Depreciation	-	(1,245)	(1,245)
Balance at December 31, 2011	$ 10,020	$ (1,245)	$ 8,775

During the year ended December 31, 2011, the Company purchased a vehicle for use at the exploration camp in Malawi, Africa.

7. RELATED PARTY TRANSACTIONS

a) All expenses of Lancaster from incorporation to December 20, 2010, were paid by Leo Mining and Exploration Ltd. (“Leo Mining”) on behalf of Lancaster. The Company is considered related by virtue of common directors and officers who have an ownership in and exercise significant influence over both companies. As of December 31, 2011 Lancaster had a payable to Leo Mining in the amount of $15,343 (2010 – $405,449). The amount is part of an agreement between the Company and Leo Mining in an effort to help fund operations prior to the Company going public. The amount is unsecured and due on demand. Interest of 2% is to be incurred on the outstanding amount annually; however this has been waived for 2010 and 2011. During the third quarter of 2010, the former shareholder, Leo Mining, forgave $195,401 of the outstanding loan. During 2011, the Company has repaid $414,708 of the funds advanced by the related party. The funding received by Lancaster from Leo Mining was spent as follows:

Opening balance, January 1, 2010	$ 225,234
Loan forgiven	(195,401)
Mineral exploration expenditures	213,738
General & administrative	161,878
Closing balance, December 31, 2010	$ 405,449
Loan repayment	(414,708)
General & administrative	24,602
Closing balance, December 31, 2011	$ 15,343

7. RELATED PARTY TRANSACTIONS (continued)

The Company and Leo Mining have formalized their relationship with respect to services provided by Leo Mining. A written agreement sets out the types of services to be provided and the costs associated with such services. Generally the Company shall pay all disbursements made by Leo Mining on its behalf. During the year the Company has not engaged in services with Leo Mining.

b) For the year ended December 31, 2011, the Company recorded $74,180 (2010 - nil) for directors fees, legal fees and key management fees and related costs. Included in accounts payable and accrued liabilities at December 31, 2011, was $39,107 (2010 - nil) due to directors. The amounts owed are unsecured, due on demand and non-interest bearing.

The transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

c) Key management remuneration to directors and executives

	2011	2010
Salary	$ 320,622	$ 272,000
Share based awards	721,172	-
Total compensation	$ 1,041,794	$ 272,000

8. SHARE CAPITAL

a) Common Shares

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

	Ref	Number	Amount
Opening balance January 1, 2010		1,000	$ 1,000
Outstanding common shares of Alloy at RTO	(iii)	5,004,474	443,787
Share consolidation (2.5:1)	(iii)	(3,002,684)	
Elimination of Lancaster shares and Alloy share capital		(1,000)	(443,787)
Acquisition of Lancaster	Note 3	19,852,899	401,039
Non-brokered offering	(i)	10,696,499	5,254,716
Brokered offering	(ii)	4,825,000	2,370,310
Share issue costs		-	(877,284)
Warrants valuation	Note 8 (b)	-	(1,543,764)
Closing balance December 31, 2010		37,376,188	$ 5,606,017
Stock options exercised	(iv)	66,667	24,583
Share issue costs refunded			1,476
Closing balance December 31, 2011		37,442,855	$ 5,632,076

8. SHARE CAPIAL (continued)

a) Common Shares (continued)

(i) On December 20, 2010, the Company issued 10,696,499 units at C$0.50 per unit pursuant to the non-brokered offering. The C$5,348,250 (US$5,254,716) gross proceeds of the non-brokered offering were allocated between common shares C$4,265,443 (US $4,190,845) and warrants C$1,082,807 (US $1,063,870) based on their relative fair value on the grant date. As compensation, 272,970 finders' warrants were issued. The finders' warrants entitle the holder to acquire one finders' unit at an exercise price of C$0.50 for a term of 24 months from issuance. Each finders' unit consists of one common shares and one-half of one (1/2) warrant. Each whole warrant entitles the holder to acquire a common share at an exercise price of C$0.75 for a period of 24 months from issuance of the finders' unit warrant. The resulting 136,485 finders' unit warrants were valued at US$315,283 (note 8c).

(ii) On December 20, 2010, the Company issued 4,825,000 units at C$0.50 per unit pursuant to the brokered offering co-lead by Haywood Securities Inc. and Byron Securities Limited (the "Agents"). The C$2,412,500 (US $2,370,310) gross proceeds of the brokered offering were allocated between common shares C$1,924,065 (US $1,890,417) and warrants C$488,435 (US $479,894) based on their relative fair value on the grant date. The agents received 337,750 agents warrants. The agents' warrants entitle the holder to acquire one agents' unit at an exercise price of C$0.50 for a term of 24 months from issuance. Each agent's unit consists of one common share and one-half of one (1/2) warrant. Each whole warrant entitles the holder to acquire a common share at an exercise price of C$0.75 for a period of 24 months from issuance of the agents' unit warrant. The resulting 168,875 agents' unit warrants were valued at US$142,218 (note 8c).

(iii) Pursuant to the Qualifying Transaction on December 20, 2010, the Company consolidated its issued and outstanding common shares on a 2.5:1 basis. After the consolidation, Mkango had 2,001,790 common shares issued and outstanding.

(iv) On October 31, 2011, 66,667 stock options were exercised at US$0.369 for a cash payment of US$24,583.

b) Warrants

Upon adoption of IFRS at January 1, 2010, the Company recorded an adjustment as a result of accounting for share purchase warrants issued using the principles of IAS 32, Financial Instruments: Recognition and Measurement (Note 5). As the exercise price of the share purchase warrants is fixed in Canadian dollars and the functional currency of the Company is the US dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. At December 31, 2011 the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was $843,051. The share purchase warrants are re-measured at fair value at each statement of financial position reporting date with the change in fair value recognized in the statement of net loss and comprehensive during the period of change. The change in fair value for the year ended December 31, 2011 resulted in a gain of $737,851. Warrants issued do not include warrants issued to brokers and agents since they fall into the scope of IFRS 2.

	Exercise Price	Years	Number of Warrants	Fair Value
Balance at, January 1, 2010	-	-	-	$ -
Issued at December 20, 2010	$0.75	2.0	7,760,750	1,543,764
Change in fair value				
Warrants issued - Non-Brokered Offering	$0.75	2.0	5,348,250	25,593
Warrants issued - Brokered Offering	$0.75	2.0	2,412,500	11,545
Balance at December 31, 2010	$0.75	2.0	7,760,750	$ 1,580,902
Change in fair value				
Warrants issued - Non-Brokered Offering	$0.75	1.0	5,348,250	(508,483)
Warrants issued - Brokered Offering	$0.75	1.0	2,412,500	(229,368)
Balance at December 31, 2011	$0.75	1.0	7,760,750	$ 843,051

8. SHARE CAPITAL (continued)

b) Warrants (continued)

The following assumptions were used in the calculation:

	December 31, 2011	December 31, 2010
Risk free interest rate	0.95%	1.67%
Stock price	0.48	0.50
Expected life (years)	0.97	2
Expected volatility	95%	95%
Dividends	Nil	Nil
Number of warrants	7,760,750	7,760,750
Fair Value Option Price	$ 0.1086	$ 0.2037

c) Contributed surplus

	Number of warrants	Amount
Balance January 1, 2010	-	$ -
Finders' unit warrants - Non-Brokered Offering (note 8a)	136,485	315,283
Agents' unit warrants - Brokered Offering (note 8a)	168,875	142,218
Balance December 31, 2010	305,360	457,501
Share based payments	-	1,279,376
Balance December 31, 2011	305,360	$ 1,736,877

d) Share based payments

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

The compensation expense relating to stock options that has been recognized in the consolidated statement of comprehensive loss for the years ended December 31, 2011 and 2010 is $1,279,376 and $nil respectively. The corresponding amount has been recognized in contributed surplus. The options vest over an 18 month period with 25% vesting immediately upon grant and the remaining options vesting every 6 months thereafter.

8. SHARE CAPITAL (continued)

d) Share based payments (continued)

The following table provides a summary of the status of the Company's stock option plan and changes during the periods ended:

	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Remaining Contractual Life (years)
Balance at January 1, 2010 and December 31, 2010	200,000	0.38	200,000	1.0
Granted - January 17, 2011	2,350,000	0.50	1,175,000	9.0
Granted - June 16, 2011	62,500	0.65	46,875	2.5
Granted - June 2011	330,000	0.55	102,500	9.5
Options exercised - August 2011	(66,667)	0.38	(66,667)	-
Balance at December 31, 2011	2,875,833	$0.50	1,457,708	8.6

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option pricing model. The following assumptions were used in arriving at the fair value of $0.53 per option:

Risk free interest rate	3.25%
Expected life	10 years
Expected volatility	95%
Dividends	Nil
Forfeiture rate	5%

d) Escrowed shares

There are 10,586,449 (2010 – 21,200,000) common shares outstanding at December 31, 2011 held in escrow. On January 5, 2012, 25% of the escrowed shares were released and the final 25% will be released on July 5, 2012.

9. INCOME TAX

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

	December 31, 2011	December 31, 2010
Loss for the year before taxes	($3,603,999)	($763,464)
Statutory tax rate	26.50%	28.00%
Expected income tax reduction	(955,060)	(213,770)
Increase resulting from:		
Share issue costs	-	(104,980)
Revaluation of warrants	(195,531)	10,399
Share based payments	339,034	-
Reverse takeover costs	-	87,566
Change in estimates, tax rates and other	(104,832)	27,253
Tax rate differential between Canada and foreign jurisdictions	72,966	82,793
Change in deferred tax assets not recognized	843,423	110,739
Income tax expense	$ -	$ -

No deferred income tax assets have been recognized as it is not probable that future taxable profit will allow the deferred tax asset to be recovered. The major components of the deferred income tax assets are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax assets:			
Property and equipment	$ 374	$ -	$ -
Evaluation and exploration costs	522,378	-	-
Loss carry forwards	324,705	59,311	-
Share issue costs	146,957	91,679	-
Deferred income tax assets:	994,413	150,990	-
Less: Deferred income tax assets not recognized	(994,413)	(150,990)	-
	$ -	$ -	$ -

As at December 31, 2011 the Company has $678,597 (2010 - $237,244) in non-capital losses available to claim against future taxable income in Canada. These non-capital losses expire as follows:

2027	$ 76,082
2028	31,606
2029	30,017
2030	27,992
2031	512,900
	$ 678,597

As at December 31, 2011 the Company has $516,853 (2010 - $nil) in non-capital losses available to claim against future taxable income in Malawi. The non-capital losses have an indefinite life.

10. FINANCIAL INSTRUMENTS

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

Cash and cash equivalents and warrant derivative liability are measured at level 1.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates the fair value due to their short term nature and maturity. Warrants with an exercise price in a currency other than the functional currency are to be recorded as a derivative liability and carried at fair value, see Note 8b. The fair value of the due to related party is equal to the carrying value due to it being due on demand (Note 7).

Financial risk management

The Company's Board of Directors 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 rate risk

The functional and reporting currency of the Company is the United States dollar. The Company enters into transactions denominated in the Canadian Dollar, the United States dollar and the UK Pound Sterling. The Company raised equity in the Canadian dollar in 2010 and purchased sufficient working capital to fund 12 months of expenditures denominated in the United States dollar and the UK Pound Sterling during 2011 when exchange rates were favorable. These currencies represent 90% of the Company's expenditures. As at December 31, 2011 and 2010, the following balances were held by the Company:

		2011		2010
Canadian dollar	$	1,113,645	$	7,840,140
United States dollar		2,147,702		-
UK Pound Sterling		478,073		-
	$	3,739,420	$	7,840,140

The Company also incurs 10% of its expenditures in the Malawi Kwacha. The Kwacha is subject to currency fluctuations which may adversely affect the Company's financial position. In order to mitigate this risk, the Company holds the minimum funds required to fund its monthly obligations, in the Malawi Kwacha. As at December 31, 2011 and 2010, the Company did not hold any Kwacha funds.

Interest rate risk

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

10. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

a) The Company will not have sufficient funds to settle a transaction on the due date;
b) The Company will be forced to sell financial assets at a value which is less than the fair value; or
c) The Company may be unable to settle or recover a financial asset at all. The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

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

The following table outlines the maturities of the Company's liabilities:

	Contractual Cash Flows	Less than 1 Year
Accounts payable and accrued liabilities	$ 132,850	$ 132,850
Loan from related party	15,343	15,343
Total	$ 148,193	$ 148,193

Credit risk

The Company's principal financial assets are cash and cash equivalents. The credit risk on cash and cash equivalents is limited because the majority are deposited with banks with high credit ratings assigned by international credit-rating agencies. Accounts receivable consists of GST and interest on investments with a credible financial institution.

11. CAPITAL COMMITMENTS

The Company was granted the Phalombe licence for the Songwe property on January 21, 2010 for 1,283 km2. The future spending commitments for exploration expenses up to 2013 with the Government of Malawi for the Phalombe licence are as follows:

Exploration commitments	$ 263,636
Ground rent	77,758
Total commitment	$ 341,394

On September 10, 2010, the Company was granted the Thambani exploration licence by the Malawi Minister of Natural Resources, Energy and Environment in respect of an area of 468 km2 in Thambani, Mwanza District, Malawi. The Company has not undertaken any activity on the licence area to date.

The future spending commitments for exploration expenses up to 2013 with the Government of Malawi for the Thambani licence are as follows:

Exploration commitments	$ 301,205
Ground rent	28,364
Total commitment	$ 329,569

11. CAPITAL COMMITMENTS (continued)

In November 2011, the Company was notified by the Malawi government that the ground rent had increased from 100 Kwacha ($0.60 USD) per square kilometer to 10,000 Kwacha ($60.60 USD) per square kilometer of licensed area. As a result, the ground rent commitment for the Company has increased significantly.

The Company expects to use the funds received from private placement equity raises to meet these commitments.

12. CAPITAL MANAGEMENT

The Company's total capital resources for the year ended December 31, 2011 are $2,775,256 which consists of total equity. The Company closed an equity issue on December 20, 2010 which has provided liquidity through 2011 and is anticipated to meet working capital requirements through 2012. The Company's objective when managing its capital is to have sufficient capital to maintain its ongoing operations, pursue its strategic opportunities and maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has no externally imposed capital requirements.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

14. SUBSEQUENT EVENTS

There have been no subsequent events as of the date of this report.

15. TRANSITION TO IFRS

For all periods up to and including December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. These financial statements are the first full year statements the Company has prepared in accordance with IFRS. Accordingly, the Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010 and the significant accounting policies adopted are shown in note 5. In preparing these financial statements, the Company has started from an opening statement of financial position as at January 1, 2010, the Company's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Company in restating its statement of financial position as at January 1, 2010.

The Company has determined that its functional and reporting currency, under IFRS, for the parent and subsidiaries is the United States dollar.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption to IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply the standards retrospectively to the opening statement of financial position, the comparative period(s) and the reporting period. The standard allows certain optional exemptions from full retrospective application and other elections on transition.

The Company has elected to take the following exemptions available under IFRS 1:

a) Cumulative translation differences – A first time adopter is not required to restate the cumulative translation differences retrospectively that exist at the transition date. As such, the cumulative translation difference is deemed to be zero at the transition date.

b) Share based payment transactions – The Company has elected to apply the exemption available under IFRS-2 for liabilities arising from share based payment transactions that will be settled after the date of transition to IFRS. The Company has elected to apply IFRS 2 retrospectively to equity instruments that were granted after November 7, 2002 that vested before the date of transition to IFRS. In particular, the Company will apply the exemption to the stock option grant made on December 1, 2008.

15. TRANSITION TO IFRS (continued)

The Company has taken the following mandatory exceptions available under IFRS 1:

a) Estimates – Company estimates under IFRS at the date of transition shall be consistent with estimates made for the same dated under Canadian GAAP. Decommissioning liabilities and onerous contracts were reviewed and none are noted at the date of transition to IFRS.

ADJUSTMENTS FROM CANADIAN GAAP TO IFRS

Consolidated Statement of Financial Position

The adoption of IFRS did not impact the opening consolidated statement of financial position at January 1, 2010. Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP as of December 31, 2010.

As at		CDN GAAP Dec. 31, 2010	IFRS Adjustment	IFRS Dec. 31, 2010
ASSETS				
Current				
Cash and cash equivalents		$ 7,840,140	$ -	$ 7,840,140
Accounts receivable		21,188	-	21,188
Total current assets		7,861,328	-	7,861,328
Investment in subsidiary		-	-	-
Property and equipment		288	-	288
Total assets		7,861,616	-	7,861,616
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		801,445	-	801,445
Due to related party		405,449	-	405,449
Warrants – derivative financial instrument	(a)	-	1,580,902	1,580,902
Total current liabilities		1,206,894	1,580,902	2,787,796
Share capital	(b, c)	5,800,258	(194,241)	5,606,017
Warrants	(a)	1,543,764	(1,543,764)	-
Contributed surplus	(b)	168,412	289,089	457,501
Deficit		(857,712)	(131,986)	(989,698)
Total equity (deficiency)		$ 6,654,722	$ (1,580,902)	$ 5,073,820
Total liabilities and equity		$ 7,861,616	$ -	$ 7,861,616

15. TRANSITION TO IFRS (continued)

ADJUSTMENTS FROM CANADIAN GAAP TO IFRS (continued)

Consolidated Statement of Comprehensive Loss

The adoption of IFRS did not impact the opening consolidated statement of comprehensive loss at January 1, 2010. Presented below are reconciliations to IFRS of the consolidated statement of comprehensive loss of the Company from the amounts reported under Canadian GAAP as of December 31, 2010.

		CDN GAAP Dec. 31, 2010	IFRS Adjustment	IFRS Dec. 31, 2010
Expenses				
General and administrative		263,691	-	263,691
Mineral exploration expenditures		338,863	-	338,863
Loss before undernoted		602,554	-	602,554
Reverse takeover costs	(d)	103,402	312,727	416,129
Public company listing expense	(c)		94,848	94,848
Interest Income		(1,737)	-	(1,737)
Loan forgiven		(195,401)	-	(195,401)
Unrealized loss on revaluation of warrants	(a)	-	37,138	37,138
Foreign exchange gain on translation		(190,077)	-	(190,077)
Total comprehensive loss attributable to common shareholders		(318,741)	(444,713)	(763,454)

Statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as the operating, investing and financing cash flows in the consolidated statements of cash flows for the periods ended January 1, 2010 and December 31, 2010.

Notes to the IFRS reconciliations:

a. On adoption of IFRS, the Company deemed their functional currency to be the US dollar; however, they raise equity in the Canadian dollar. The Company closed a private placement on December 20, 2010 (described in Note 8a), where they issued units consisting of 1 common share and one half of one warrant. Because the warrants may be exercised in another currency other than the Company's functional currency, at some point in the future, the number of warrants will not be exchanged for a fixed amount of cash. This resulted in a reclassification of the warrants from equity to a derivative liability in the statement of financial position, with changes in the fair value being recognized in the statement of comprehensive loss at each reporting period. The derivative liability fair value adjustment on December 20, 2010 of $1,543,764 resulted in an increase of the liability and a decrease of the warrant value. Subsequent to the RTO date on December 31, 2010 the warrants fair value was $1,580,902. The fair value change was recognized as an unrealized gain of $37,138 in the statement of comprehensive loss

b. On adoption of IFRS, the valuation of warrants issued as compensation to agents and brokers with respect to the brokered and non-brokered private placements which closed December 20, 2010, required revaluation under the IFRS 2 to reflect a fair value based on services received. A cash payment of 6% on shares issued was paid to the broker of the brokered placement, therefore, this value was deemed to be the fair value of the services received and was applied to the agents' and brokers' warrants, the total change resulted in $289,089 of share issue costs being charged to share capital and added to contributed surplus.

15. TRANSITION TO IFRS (continued)

c. On adoption of IFRS, the reverse takeover transaction was accounted for under IFRS 2 – Share-Based Payments as Alloy Capital Corp. was not considered a business under the requirements of IFRS 3, thus as described in Note 3, $94,848 was expensed as a public company listing expense in the statement of comprehensive loss at December 31, 2010, the same amount was added to share capital to show the increase in the value that was attributed as a result of the continuing entity (the Company) obtaining the public company listing status.

d. Under IFRS the recapitalization adjustment which was part of the transaction costs, is considered a charge to comprehensive income as part of the reverse takeover costs, thus (as described in Note 3) an additional $312,727 was added to the reverse takeover costs on the statement of comprehensive loss as at December 31, 2010.