

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2006**

**KATANGA MINING LIMITED  
(Formerly *Balloch Resources Ltd.*)  
(A DEVELOPMENT STAGE ENTITY)**

Responsibility for Financial Statements

The accompanying consolidated financial statements for Katanga Mining Limited have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2005 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented. These consolidated financial statements have been approved by the Board of Directors of the Company.

Auditor Involvement

The auditors of Katanga Mining Limited have not performed a review of the unaudited consolidated financial statements for the three and six months ended June 30, 2006 and June 30, 2005.

KATANGA MINING LIMITED  
*(Formerly Balloch Resources Ltd.)*  
 (A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN UNITED STATES DOLLARS)

	June 30, 2006 (Unaudited)	December 31, 2005 (Note 1)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 131,463,901	\$ 944,737
Prepaid expenses and other current assets	102,062	862
	131,565,963	945,599
Mineral interests (Note 3)	11,940,954	2,383,932
Advances to related party (Note 6)	260,000	110,000
Investment in Kamoto Copper Company SARL	-	150,000
	\$ 143,766,917	\$ 3,589,531
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 5)	\$ 2,013,417	\$ 1,008,584
Due to shareholders (Note 7)	80,000	80,000
	2,093,417	1,088,584
<b>Shareholders' Equity</b>		
Capital stock (Note 4)	7,705,330	10,000
Contributed surplus (Note 4)	133,987,917	2,510,694
Deficit	(19,747)	(19,747)
	141,673,500	2,500,947
	\$ 143,766,917	\$ 3,589,531

Signed by  
*"Arthur Ditto"*  
 Director

Signed by  
*"Robert G. Wardell"*  
 Director

KATANGA MINING LIMITED  
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STATEMENTS OF OPERATIONS AND DEFICIT

(EXPRESSED IN UNITED STATES DOLLARS)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006 (Note 1)	2005	2006 (Note 1)	2005
Administrative expenses				
Office expenses	\$ -	\$ 1,002	\$ -	\$ 1,490
Professional fees	-	249	-	4,392
Travel	-	323	-	831
	-	1,574	-	6,713
Net loss for the period	-	(1,574)	-	(6,713)
DEFICIT, beginning of period	(19,747)	(18,194)	(19,747)	(13,055)
DEFICIT, end of period	\$ (19,747)	\$ (19,768)	\$ (19,747)	\$ (19,768)
Basic and fully diluted loss per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average number of common shares	36,383,900	35,001,500	35,696,519	35,001,500

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(EXPRESSED IN UNITED STATES DOLLARS)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Cash (used in) provided by:				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ -	\$ (1,574)	\$ -	\$ (6,713)
Items not affecting cash:				
Changes in non-cash working capital				
Prepaid expenses and other current assets	(91,200)	-	(91,200)	-
Accounts payable and accrued liabilities	(384,207)	1,555	(577,191)	6,827
Due to shareholders	-	12,500	-	12,500
	(475,407)	12,481	(668,391)	12,614
<b>INVESTING ACTIVITIES</b>				
Mineral interests	(1,766,133)	-	(3,775,440)	(51,959)
Investment in Kamoto Copper Company	-	-	(150,000)	-
Net cash acquired in RTO transaction (Note 2)	1,846,478	-	1,846,478	-
	80,345	-	(2,078,962)	(51,959)
<b>FINANCING ACTIVITIES</b>				
Issue of common shares, net of issue costs	129,407,842	-	129,407,842	-
Capital contributions from Katanga Mining Limited	2,027,561	-	3,858,675	-
	131,435,403	-	133,266,517	-
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>131,040,341</b>	<b>12,481</b>	<b>130,519,164</b>	<b>(39,345)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>423,560</b>	<b>8,264</b>	<b>944,737</b>	<b>60,090</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$131,463,901</b>	<b>\$ 20,745</b>	<b>\$131,463,901</b>	<b>\$ 20,745</b>

KATANGA MINING LIMITED  
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(DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Three and Six Months Ended June 30, 2006 and 2005

(UNAUDITED)

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1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Katanga Mining Limited ("Katanga" or the "Company") was incorporated under the laws of Bermuda on October 7, 1996 and is engaged in the acquisition, and development of mineral properties. The Company is considered to be in the development stage. On July 8, 2004, the Company changed its name from New Inca Gold Ltd. to Balloch Resources Ltd. and consolidated its common shares on a ten for one basis. On November 30, 2005, the Company changed its name to Katanga Mining Limited.

The consolidated financial statements include the Company's wholly owned subsidiaries and its 75% interest in Kamoto Copper Company SARL.

On December 22, 2005, Katanga purchased a 23.33 percent ownership interest in Kinross Forest Limited ("KFL") from Kinross Gold Corporation for CDN\$5.45 million.

On June 27, 2006, the Company acquired the remaining shares, 76.67 %, of KFL which it did not own by issuing 35,001,500 Katanga shares to the shareholders of KFL and the payment of cash of \$800,000. As more fully described in Note 2, after this transaction, the former shareholders of KFL acquired control of Katanga and this transaction has been accounted for as a reverse takeover. Under this basis of accounting, KFL has been deemed to be the acquirer and, accordingly, the Company is considered to be a continuation of KFL with the net assets of Katanga as of June 27, 2006 deemed to have been acquired by KFL. In addition, the comparative balance sheet at December 31, 2005 and the results of operations for the three and six months ended June 30, 2005, and for the current period to June 27, 2006 are those of KFL. KFL incurred no expenses during the current three and six month periods as all general and administrative expenses prior to the RTO transaction (see Note 2) were borne by Katanga.

The unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian generally accepted accounting principles for annual financial statements, and therefore should be read in conjunction with the Company's annual financial statements and notes thereto. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2006 are not indicative of the results that may be expected for the year ending December 31, 2006.

New Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for the Company's fiscal years beginning January 1, 2007.

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(UNAUDITED)

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2. REVERSE TAKEOVER ACCOUNTING

On December 12, 2005, Katanga acquired a 23.33% ownership in KFL for \$4,711,232.

Pursuant to an option agreement dated July 29, 2005, as amended by agreements dated November 9, 2005 and March 15, 2006 (the "Option Agreement") KFL granted an option to Katanga to purchase the 76.67% of the outstanding shares of KFL it did not already own, in exchange for 35,001,500 common shares of Katanga and the payment of cash of \$800,000 (the "RTO Transaction"). The option was exercised and the share exchange occurred on June 27, 2006. The RTO Transaction resulted in the former shareholders of KFL, other than Katanga, owning 67.01% of Katanga before the Katanga financing referred to in Note 4. Accordingly, the exchange of shares has been accounted for as an acquisition of Katanga by KFL, referred to as a "reverse takeover" ("RTO"). The agreement closed on June 27, 2006. Application of RTO accounting results in the following:

- (a) KFL is deemed to be the acquirer for accounting purposes; its assets and liabilities are included in the balance sheet at their carrying values.
- (b) The balance sheet combines the Katanga assets and liabilities acquired as follows:

Net book value of assets and liabilities of Katanga at June 27, 2006

Cash	\$	1,846,478
Prepaid expenses and other current assets		10,000
Initial investment in KFL		4,711,232
Investment in KFL with respect to feasibility study costs		6,369,369
Accounts payable and accrued liabilities		(661,674)
	\$	<u>12,275,405</u>

The fair value of Katanga's assets and liabilities other than its investment in KFL with respect to feasibility study costs approximates their net book value. No value has been ascribed to the investment in KFL with respect to feasibility study costs as the actual feasibility expenditures made by KFL are already included in mineral interests.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Three and Six Months Ended June 30, 2006 and 2005

(UNAUDITED)

3. MINERAL INTERESTS

Mineral interests comprise the following:

Feasibility study costs of KFL	\$ 5,289,372	\$ 2,383,932
Development costs of KCC	1,940,350	-
Initial investment in KFL	<u>4,711,232</u>	<u>-</u>
	<u>\$ 11,940,954</u>	<u>\$ 2,383,932</u>

In February 2004, KFL entered into a joint venture agreement (the "Kamoto Joint Venture Agreement") with La Générale des Carrières et des Mines ("Gécamines"), the state owned and operated mining enterprise of the Democratic Republic of Congo (the "DRC") to rehabilitate the Kamoto Joint Venture assets, which include exploration and mining properties, the Kamoto concentrator, the Luilu metallurgical plant, the Kamoto underground mine and various oxide open pit resources in the Kolwezi district of the DRC (the "Kamoto Joint Venture Assets"). The Kamoto Joint Venture received the approval of the Conseil des Ministres du Government de Transition of the DRC (the Congolese Government) on July 15, 2005 and was publicly ratified by presidential decree No. 05070 issued on August 4, 2005. The Kamoto Joint Venture is owned 75% by KFL and 25% by Gécamines.

The Kamoto Joint Venture Agreement required that a feasibility study be delivered by KFL to Gécamines. On April 17, 2006 a feasibility study was delivered to Gécamines by KFL in accordance with the terms of the Kamoto Joint Venture Agreement.

KFL and Gécamines are utilizing a DRC incorporated and organized company, Kamoto Copper Company SARL ("KCC"), owned 75% by KFL and 25% by Gécamines, to hold, redevelop, rehabilitate and operate the Kamoto Joint Venture Assets. KCC has a six person board, four members of which are nominees of KFL. Under the terms of the Kamoto Joint Venture, Gécamines has granted to KCC exclusive rights to take possession of and use all of the real and personal property constituting the Kamoto Joint Venture Assets. KFL must contribute the technical expertise and the necessary capital for the expansion of the Kamoto Joint Venture Assets. It is anticipated that KFL will receive repayment of the capital and interest thereon on a preferential basis. Also, KCC must make lease payments to Gécamines equal to 2% of the net sales proceeds realized during the first three annual periods and 1.5% of the net sales proceeds realized during each annual period thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS

(a) AUTHORIZED

1,000 common shares, par value \$12.00 each  
 100,000,000 common shares, par value \$0.10 each

(b) COMMON SHARES ISSUED

	NUMBER OF SHARES	CAPITAL STOCK	CONTRIBUTED SURPLUS
Balance at September 30, 2005	5,750,975	\$ 586,998	\$ 1,864,923
Issued for cash, net of issue costs (1)	14,000,000	1,400,000	12,616,178
Issued for cash, net of issue costs (2)	21,000,000	2,100,000	127,307,842
Exercise of warrants	1,056,820	105,682	738,628
Exercise of options	125,000	12,500	440,652
Black-Scholes valuation of options granted during the period	-	-	479,275
Common share adjustment	1	-	-
Issued in RTO transaction	35,001,500	3,500,150	2,405,886
Adjustment to give effect to RTO accounting	-	-	(11,865,467)
<b>Balance at June 30, 2006</b>	<b>76,934,296</b>	<b>\$ 7,705,330</b>	<b>\$133,987,917</b>

(1) On December 13, 2005, the Company received aggregate gross proceeds from its brokered private placement of CDN\$17,500,000. A total of 14,000,000 subscription receipts were issued at a price of CDN\$1.25 per subscription receipt. Each subscription receipt entitled the holder to acquire one Katanga common share without payment of further consideration. The Company paid the agents a commission equal to 6% of the gross proceeds of the offering and issued the agents compensation warrants to buy 560,000 Katanga common shares. The exercise price of the warrants is CDN\$1.45 per share and they expire on December 12, 2006.

(2) On May 2, 2006, the Company closed a financing and the underwriters' option was exercised. The Company received aggregate gross proceeds of CDN\$152,500,000. A total of 21,000,000 subscription receipts were issued at a price of CDN\$7.25 per subscription receipt. Each subscription receipt entitled the holder to acquire one Katanga common share without payment of further consideration. The gross proceeds of the offering less the estimated out-of-pocket costs and expenses of the underwriters were held in escrow and were released to the Company on June 27, 2006 upon satisfaction of certain escrow release conditions. The Company paid the agents a commission equal to 5% of the gross proceeds of the offering.

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4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(b) COMMON SHARES ISSUED (Continued)

For financial reporting purposes, the changes in capital stock and contributed surplus during the six months ended June 30, 2006 are as follows:

	CAPITAL STOCK	CONTRIBUTED SURPLUS	TOTAL
Balance at December 31, 2005 (i)	\$ 10,000	\$ 2,510,694	\$ 2,520,694
Additional contributions of capital during the period (ii)	-	3,858,675	3,858,675
Shares issued in RTO Transaction (iii)	3,500,150	2,405,886	5,906,036
Shares issued in private placement (iv)	2,100,000	127,307,842	129,407,842
Reclassification to reflect par value of shares outstanding (v)	2,095,180	(2,095,180)	-
Balance at June 30, 2006	\$ 7,705,330	\$133,987,917	\$141,693,247

- (i) The capital stock and contributed surplus amounts at December 31, 2006 are the amounts reported by KFL, the continuing entity under reverse takeover accounting described in Note 2. KFL issued 10,000 common shares with a par value of \$1 per share in 2004. Contributed surplus of \$2,510,694 arose as a result of cash advances to KFL by Katanga. Pursuant to the terms of the Option Agreement, Katanga advanced funds to KFL to fund the feasibility study and other mineral property expenditures on the Kamoto Joint Venture Assets.
- (ii) Additional cash advances between January 1, 2006 and June 27, 2006 (the date of the RTO Transaction) were made to KFL by Katanga to fund the completion of the feasibility study.
- (iii) The value ascribed to the 35,001,500 common shares issued in the RTO Transaction is the fair value of Katanga's net assets (excluding advances to KFL to fund feasibility costs referred to in (i) and (ii) above) on June 27, 2006, the date of the RTO Transaction, as described more fully in Note 2.
- (iv) Following completion of the RTO Transaction, the Company received net proceeds in the amount of \$129,407,842, upon the issuance of 21,000,000 subscription receipts.
- (v) The stated value of the Company's capital stock has been increased and contributed surplus decreased by an equivalent amount to present capital stock at the actual par value of the common shares outstanding on June 30, 2006, namely 76,933,296 common shares with a par value of \$0.10 per share and 1,000 common shares with a par value of \$12.00 per share for an aggregate value of \$7,705,330.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Three and Six Months Ended June 30, 2006 and 2005

(UNAUDITED)

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(c) WARRANTS

The following table reflects the number of warrants and compensation warrants issued by the Company.

Expiry date	Exercise price (1)	Outstanding September 30, 2005	Issued during the period	Exercised during the period	Outstanding June 30, 2006
October 6, 2006 (2)	\$0.35	1,837,500	-	(100,000)	1,737,500
December 12, 2006 (3)	1.45	<u>560,000</u>	<u>-</u>	<u>(544,320)</u>	<u>15,680</u>
		<u>2,397,500</u>	<u>-</u>	<u>(644,320)</u>	<u>1,753,180</u>

(1) Denominated in Canadian dollars.

(2) Fair market value assigned to warrants using the Black-Scholes valuation model is \$104,280.

(3) Fair market value assigned to compensation warrants using the Black-Scholes valuation model is \$35,377.

(d) STOCK OPTIONS

The following table reflects the continuity of stock options for the period:

	Number of Stock Options	Weighted Exercise Price per share(1)
Balance outstanding at September 30, 2005	-	\$nil
Granted during the period	1,055,000	6.76
Exercised during the period	(125,000)	4.10
Balance outstanding at June 30, 2006	930,000	\$7.12

(1) Denominated in Canadian dollars.

(2) In April 2006, 850,000 options were granted with an exercise price of \$7.40. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 83%, risk-free rate of return 4.23% and expected maturity of 5 years. The fair value of each stock option granted averaged \$5.05 per option. The total fair value assigned to these options was \$4,290,800. These options vest at a rate of 33.33% on each of January 1, 2007, 2008 and 2009, respectively.

(3) In January 2006, 205,000 options were granted with an exercise price of \$4.10. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 80%, risk-free rate of return 3.84% and expected maturity of 5 years. The fair value of each stock option granted averaged \$2.34 per option. The total fair value assigned to these options was \$479,275. These options vested upon issuance.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Three and Six Months Ended June 30, 2006 and 2005

(UNAUDITED)

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(d) STOCK OPTIONS (Continued)

The following table summarizes the stock options outstanding at June 30, 2006:

Exercise Price per Share (1)	Expiry Date	Outstanding Options
\$4.10	January 17, 2011	80,000
\$7.40	April 19, 2011	850,000
		930,000

(1) Denominated in Canadian dollars.

5. RESTRICTED SHARE UNITS

In April 2006, 195,000 Restricted Share Units ("RSUs") were granted. Each unit entitles the holder to one share of the Company's common stock upon vesting. The RSUs vest at a rate of 33.33 % upon each of January 1, 2007, 2008 and 2009, respectively. Upon vesting, the Company is obligated to provide a trustee with the necessary funds to enable the trustee to acquire the Company's common stock in the marketplace for the benefit of the holder. The holders of the RSUs have no rights of ownership associated with the common shares until the RSUs have vested and the common shares have been transferred to the participant. Included on the Company's June 30, 2006 balance sheet is a payable of \$388,183 related to the issuance of the RSUs.

6. ADVANCES TO RELATED PARTY

Advances to related party in the amount of \$260,000 at June 30, 2006 (December 31, 2005 - \$110,000) consist of cash advances from KFL to Kamoto Operating Limited, a company controlled by significant shareholders of the Company. These advances are unsecured, do not bear interest and have no fixed terms of repayment.

7. DUE TO SHAREHOLDERS

Amounts due to shareholders are unsecured, do not bear interest and have no fixed terms of repayment.

8. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the Company changed its fiscal year end from September 30 to December 31.

On July 7, 2006, 400,000 options were issued to members of the Board of Directors of the Company. The options are exercisable at CDN\$6.15 and expire on July 6, 2011. Additionally, on July 10, 2006, 185,000 options were issued to an officer of the Company. These options are exercisable at CDN\$6.00 and expire on July 9, 2011. Also, on July 10, 2006, 50,000 RSUs were issued to an officer of the Company.