

# **KATANGA MINING LIMITED**

**June 30, 2006**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following discussion and analysis is management's assessment of the results and financial condition of Katanga Mining Limited ("Katanga" or the "Company") and should be read in conjunction with its unaudited interim consolidated financial statements for the three and six months ended June 30, 2006 and the Kinross Forest Limited ("KFL") audited financial statements for the year ended December 31, 2005. The financials statements have been prepared in accordance with Canadian generally accepted accounting principles and **all dollar amounts are in United States dollars**. The date of this management discussion and analysis is August 11, 2006. Katanga's common shares trade on the TSX Exchange under the symbol "KAT" and its most recent filings are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the Internet at [www.sedar.com](http://www.sedar.com).*

*The "Independent Qualified Person" under the guidelines of National Instrument 43-101 of the Canadian Securities Administrators for the Company's mineral properties in the following discussion and analysis is Richard Dye, the Senior Vice President, Technical Services of Katanga Mining and a Qualified Person under National Instrument 43-10.*

Katanga is engaged in the acquisition and development of mineral properties. Katanga was incorporated under the laws of Bermuda on October 7, 1996 under the name New Inca Gold Ltd. On July 8, 2004, the Company consolidated its common shares on a ten for one basis and changed its name to Balloch Resources Ltd. On November 30, 2005, the Company's name was changed to Katanga Mining Limited. The information below reflects the consolidation of the common shares on a ten for one basis.

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.

Pursuant to an option agreement between the Company and KFL dated July 29, 2005, as amended by agreements dated November 9, 2005 and March 15, 2006 (the "Option Agreement"), 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 the unaudited interim consolidated financial statements, after this transaction, the former shareholders of KFL acquired control of Katanga and this transaction has been accounted for as a reverse takeover ("RTO"). 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.

## **1. Overview of Performance**

### ***Historical Activities***

In prior years, Katanga's primary asset was a 10% net profit interest in the El Molino Project located in a historic gold mining area near Cajamarca, Peru in the Yanacocha mining district of northeastern Peru. The concession is owned by Lumina Copper Corp. ("Lumina") of Vancouver, British Columbia. The El Molino Project lies contiguous to Lumina's El Galino concession. Katanga and its Australian partner, AKD Ltd. ("AKD"), each owned a 50% interest in the El Molino Project. In 2004, Katanga and AKD agreed to sell their interest in the El Molino Project to Lumina. Lumina paid each partner cash consideration of \$150,000 and a net profits interest of up to 10% depending on the timing of production from the concession. The net profits interest converts to a 0.5% NSR royalty if production commences after 2006. No commercial production is expected before the end of 2006.

### ***Kamoto Joint Venture***

In February 2004, KFL entered into a joint venture agreement (the "Kamoto Joint Venture Agreement") with La Générale des Carrières et des Mines ("Gécamines"), a state owned company incorporated under the laws of the Democratic Republic of Congo ("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 Gouvernement 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 have incorporated and organized a DRC company, known as Kamoto Copper Company SARL ("KCC"), to hold, redevelop, rehabilitate and operate the Kamoto Joint Venture Assets. KCC was formed and the first shareholders' meeting was held on October 17, 2005. KCC is owned 75% by KFL and 25% by Gécamines. KCC has a six person board, four members of which are nominees of KFL.

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. 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. 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.

## ***Financings***

On October 19, 2005 Katanga completed a private placement of 14 million subscription receipts of the Company, at a price of CDN\$1.25 per subscription receipt for gross proceeds of CDN\$17.5 million. Each subscription receipt entitled the holder to receive one Katanga share without payment of any additional consideration. The gross proceeds of the offering were held in escrow and were released to the Company on December 12, 2005 upon satisfaction of certain escrow release conditions. The Company paid the agents a commission equal to 6.0% of the gross proceeds of the offering. In addition, the Company issued to the agents compensation warrants to purchase in aggregate 560,000 Katanga shares. The compensation warrants are exercisable for 12 months following the closing of the offering at an exercise price of CDN\$1.45 per share.

On May 2, 2006, the Company closed a financing (the “Katanga Financing”) which included the exercise of the underwriters’ option. 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 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.

Selected Annual Information of KFL (a)	2005	2004
Interest income	\$269	\$ 116
Expenses	\$6,961	\$13,171
Net loss for the year	\$6,692	\$13,055
Loss per share	\$ nil	\$ nil
Current assets	\$945,599	\$60,090
Mineral interests and other assets	\$2,643,932	\$ nil
Total assets	\$3,589,531	\$60,090
Current liabilities	\$1,088,584	\$63,145
Long-term liabilities	\$ nil	\$ nil
Total liabilities	\$1,088,584	\$63,145
Cash dividends declared	\$ nil	\$ nil

(a) Prior to 2004 KFL was inactive

## ***Review of Annual Operations***

KFL had limited operations in 2004 and 2005, its only activity being the signing of the Kamoto Joint Venture Agreement with Gecamines and the Option Agreement with Katanga. After signing the Option Agreement, all expenditures were made as part of the Feasibility Study and were funded by Katanga. Payments of Feasibility Study costs in 2005 in the amount of \$2,383,932 were recorded as mineral interests and the advances by Katanga for the Feasibility Study costs in the amount of \$2,510,694 were recorded as contributed surplus. The current assets primarily represented prepayments due to contractors for work on the Feasibility Study.

## 2. Selected Quarterly Information

### Fiscal 2006

	Three Months Ended	
	March 2006	June 2006
Interest income	\$ nil	\$ nil
Expenses	\$ nil	\$ nil
Net earnings	\$ nil	\$ nil
Earnings per share	\$ nil	\$ nil
Current assets	\$424,422	\$131,565,963
Mineral interests and other assets	\$4,803,239	\$12,200,954
Total assets	\$5,227,661	\$143,766,917
Current liabilities	\$895,600	\$2,093,417
Long-term liabilities	\$ nil	\$ nil
Total liabilities	\$895,600	\$2,093,417
Cash dividends	\$ nil	\$ nil

### Fiscal 2005

	Three Months Ended			
	March 2005	June 2005	September 2005	December 2005
Interest income	\$175	\$ 58	\$36	\$ nil
Expenses	\$5,314	\$1,632	\$15	\$ nil
Net earnings (loss)	\$(5,139)	\$(1,574)	\$21	\$ nil
(Loss) per share	\$ nil	\$ nil	\$ nil	\$ nil
Current assets	\$8,264	\$20,745	\$81,183	\$945,599
Mineral interests and other assets	\$51,959	\$51,959	\$329,739	\$2,643,932
Total assets	\$60,223	\$72,704	\$410,922	\$3,589,531
Current liabilities	\$68,417	\$82,472	\$81,273	\$1,088,584
Long-term liabilities	\$ nil	\$ nil	\$ nil	\$ nil
Total liabilities	\$68,417	\$82,472	\$81,273	\$1,088,584
Cash dividends	\$ nil	\$ nil	\$ nil	\$ nil

### Fiscal 2004

	Three Months Ended
	December 2004
Interest income	\$116
Expenses	\$13,171
Net (loss)	\$(13,055)
(Loss) per share	\$ nil
Total assets	\$60,090
Current liabilities	\$63,145
Long-term liabilities	\$ nil
Total liabilities	\$63,145
Cash dividends	\$ nil

The Company has not paid any dividends.

### ***Review of Quarterly Operations***

Quarterly expenses were limited, reflecting the low level of activity in KFL until the Option Agreement was signed and the Feasibility Study started in the third quarter of 2005. Expenditures on the Feasibility Study increased through the first half of 2006 as the study was completed for a cost of approximately \$7 Million.

### **3. Results of Operations**

Through the date of the RTO, June 27, 2006, all expenditures by KFL continued to be made as part of the Feasibility Study and were funded by Katanga, thus the Company had no material operating results for the three and six months ended June 30, 2006.

Expenses in comparable periods in 2005 were minimal, due to the Company's limited operations prior to entering into the Option Agreement.

### **4. Liquidity and Capital Resources**

Katanga's working capital at June 30, 2006 was \$129,472,546 (December 31, 2005 – working deficiency of \$142,985). The increase in working capital is attributable to the successful completion of the Katanga Financing of CDN\$152,250,000.

Prior to December 31, 2005, KFL's working capital was limited. The deficiency at December 31, 2005 is primarily the difference between the cash advanced by Katanga and the cash paid on the Feasibility Study costs. As KFL had little operating activity and the costs of the Feasibility Study were being funded by Katanga, KFL had limited working capital requirements.

Katanga's historical working capital requirements consisted primarily of funding the feasibility study for the Kamoto Joint Venture Assets. The cost of this feasibility study was met from cash on hand. The feasibility study estimates expenditures for capital costs for Phase I of the rehabilitation of the Kamoto Joint Venture Assets of approximately \$175 million and approximately \$427 million for the entire redevelopment of the Kamoto Joint Venture Assets. Expenditures relating to Phase 1 have begun and are expected to be completed in calendar 2007. The Company anticipates raising debt financing of over \$100 million by March 31, 2007 in order to complete the funding for Phase 1. Additional financing will be required for the remaining three phases of the redevelopment of the Kamoto Joint Venture Assets.

## **5. Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the financial statements include Katanga's estimate of recoverable value on its investment in the redevelopment of the Kamoto Joint Venture Assets. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of Katanga's control.

Katanga's recorded value of its mineral interests associated with the redevelopment of the Kamoto Joint Venture Assets is based on historical costs that are expected to be recovered in the future. Katanga's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. Katanga is in an industry that is exposed to a number of risks and uncertainties, including political risk, exploration risk, development risk, commodity price risk, operating risk, ownership risk, funding risk, currency risk and environmental risk. Bearing these risks in mind, Katanga has assumed reasonable world commodity prices will be achievable, as will costs used in studies for projected construction and mining operations. All of these assumptions are potentially subject to significant change, out of Katanga's control, however such changes are not determinable. Accordingly, there is always the potential for a material adjustment to the value assigned to these assets.

## **6. Outstanding Share Data**

### *Summary of Outstanding Securities*

On July 8, 2004, Katanga consolidated its common shares on a ten for one basis. The information below reflects the consolidation of the common shares on a ten for one basis.

(a) Authorized: 1,000 common shares, par value \$12.00 each, and 100,000,000 common shares, par value \$0.10 each.

(b) Issued:

	<b>Number of Shares</b>
<b>Balance – September 30, 2003 and September 30, 2004</b>	1,050,975
Issued for cash	4,500,000
Finder's fee	200,000
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<b>Balance – September 30, 2005</b>	5,750,975
Exercise of warrants	512,500
Issued for cash	35,000,000
Exercise of broker warrants	544,320
Exercise of options	125,000
Common share adjustment	1
Shares issued to acquire KFL	35,001,500
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<b>Balance – August 11, 2006</b>	76,934,296
Outstanding warrants exercisable at CDN\$0.35 per share and expiring October 6, 2006	1,737,500
Outstanding broker warrants exercisable at CDN\$1.45 per share and expiring October 19, 2006	15,680
Outstanding options exercisable at CDN\$4.10 per share and expiring January 17, 2011	80,000
Outstanding options exercisable at CDN\$7.40 per share and expiring April 18, 2011	850,000
Outstanding options exercisable at CDN\$6.15 per share and expiring July 6, 2011	400,000
Outstanding options exercisable at CDN\$6.00 per share and expiring July 9, 2011	185,000
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<b>Fully diluted shares outstanding – August 11, 2006</b>	<b>80,202,476</b>

### ***Stock Options***

The Company has a stock option plan under which stock options may be granted to the Company's directors, senior officers, employees, consultants and consultant companies. The stock option plan: (a) provides that the number of common shares reserved for issuance, within a one year period, to any one optionee, shall not exceed 5% of the outstanding common shares; (b) provides the maximum number of common shares reserved for issuance pursuant to options granted to insiders may not exceed 10%; (c) generally provides for a maximum vesting period of 18 months; (d) contains other provisions to ensure the stock option plan is compliant with stock exchange regulations. The maximum number of options to purchase common shares is 2,093,279.

On January 18, 2006 the Corporation granted an aggregate of 205,000 options, of which all were granted to directors and officers. The options are exercisable at CDN\$4.10 and will expire on January 17, 2011. On April 19, 2006, the Corporation granted an aggregate of 850,000 options of which all were granted to officers. The options are exercisable at CDN\$7.40 and will expire on April 18, 2011. On July 10, 2006, the Corporation granted 185,000 options all of which were granted to an officer. On July 7, 2006, the Corporation granted an aggregate of 400,000 options, all of which were granted to directors.

## **7. Other Information**

### ***Material Transactions***

There were no material transactions during the period, other than as described herein.

### ***Contractual Commitments***

Katanga has no significant contractual commitments, other than as described herein.

### ***Related Party Transactions***

Katanga entered into the Option Agreement and the Option Amendment Agreement and has exercised the Option Amendment Agreement (upon approval of the shareholders of Katanga) and had other transactions with KFL during the six months ended June 30, 2006 as described herein. The majority of the shareholders of KFL are also shareholders of Katanga. In December 2005, these shareholders also became officers and/or directors of Katanga.

Kamoto Operating Limited (“KOL”), a company incorporated pursuant to the laws of the DRC, has been appointed to act as the operator of the project pursuant to the Kamoto Joint Venture Agreement and an operating agreement (“Operating Agreement”) which was executed by KOL and KCC on November 2, 2005. Current shareholders and directors of the Corporation are the owners of KOL. The Operating Agreement establishes the terms and conditions pursuant to which KOL as operator will provide services to KCC in the planning and conduct of exploration, development, mining, processing and related operations with respect to the Kamoto Joint Venture Assets, including a management fee to be provided to KOL.

A portion of the commission and compensation warrants related to the CDN\$17.5 private placement completed in December 2005 were paid to a limited market dealer subsidiary of a company, two directors of whom are also directors of Katanga.

The Company has leased aircraft from an entity owned by one of its directors on terms that are competitive to the terms available from other qualified contractors.

Other than these transactions, Katanga has not had any transactions with related parties during the six months ended June 30, 2006.

### ***Disclosure Controls***

The Company continues to enhance its disclosure controls and procedures. The Chief Executive Officer and Chief Financial Officer have concluded that, during the first six months of fiscal 2006, the process was sufficiently effective to ensure material information was accumulated and communicated to senior management in a timely manner in order for senior management to make decisions regarding the Company’s disclosure record as required by securities legislation.

### ***Risk Factors***

Katanga is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. As in prior periods, the risks include, but are not limited to, limited operating history, speculative nature of mineral exploration and development activities, operating hazards and risks, mining risks and insurance, foreign operations, environmental and other regulatory requirements, competition, stage of development, fluctuations in commodity prices, currency risk, conflicts of interest, reliance on key individuals and enforcement of civil liabilities.

### ***Forward Looking Statements***

This quarterly report may contain forward-looking statements, including predictions, projections and forecasts. Forward-looking statements include, but are not limited to, statements with respect to exploration results, the future price of copper, the estimation of mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production, costs of production, anticipated budgets and exploration expenditures, capital expenditures, costs and timing of the development of new deposits, the success of exploration activities generally, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of exploration and mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of any pending litigation. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or describes a “goal”, or variation of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, future events, conditions, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, prediction, projection, forecast, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the actual results of current exploration activities; actual results and interpretation of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of copper and cobalt; possible variations in ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of exploration, development or construction activities, as well as those factors disclosed in the company's publicly filed documents. Although Katanga has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.