

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005

**KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005**

INDEX	PAGE
Management's Responsibility Letter and Auditors' Report	2-3
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Deficit	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 21

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED
Development Stage Entity

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Katanga Mining Limited were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 3 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committees are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Arthur H. Ditto
President and Chief Executive Officer

Stephen M. Jones
Senior Vice President and Chief Financial Officer

Date: 27th March 2007

AUDITORS' REPORT

To the Shareholders of Katanga Mining Limited

We have audited the consolidated balance sheet of Katanga Mining Limited as at December 31, 2006 and the consolidated statements of operations and deficit and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Ontario

March 27, 2007

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN UNITED STATES DOLLARS)

December 31,	2006	2005
		(Note 1)
Assets		
Current		
Cash and cash equivalents	\$ 196,985,623	\$ 944,737
Inventory	176,583	-
Prepaid expenses and other current assets	4,393,054	862
	201,555,260	945,599
Property, plant and equipment (Note 4)	41,847,436	2,383,932
Mobilization charge (Note 8)	2,520,000	-
Advances to related party	-	260,000
Deferred financing costs (Note 5)	4,157,084	-
	\$ 250,079,780	\$ 3,589,531
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 8,813,568	\$ 1,088,584
Restricted stock units (Note 7)	835,361	-
	9,648,929	1,088,584
Debentures payable (Note 5)	93,496,963	-
	103,145,892	1,088,584
Shareholders' Equity		
Capital stock (Note 6)	7,815,648	10,000
Warrants (Note 6)	6,736,405	-
Contributed surplus (Note 6)	137,122,818	2,510,694
Deficit	(4,740,983)	(19,747)
	146,933,888	2,500,947
	\$ 250,079,780	\$ 3,589,531

Nature of Operations - Note 1

Signed by
"Arthur Ditto"
Director

Signed by
"Robert G. Wardell"
Director

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(EXPRESSED IN UNITED STATES DOLLARS)

For the Years Ended December 31	2006	2005
		(Note 1)
Administrative expenses		
General and administrative	\$ 4,045,781	\$ 2,569
Professional fees and consulting	1,237,714	4,392
Stock-based compensation	1,622,852	-
Foreign exchange gain	(900,821)	-
Loss for the year before the following:	(6,005,526)	(6,961)
Debenture interest	(1,551,868)	-
Interest income	2,934,638	269
Loss for the year before income taxes:	(4,622,756)	(6,692)
Provision for income taxes (Note 11)	98,480	-
Net loss for the year	(4,721,236)	(6,692)
DEFICIT, beginning of year	(19,747)	(13,055)
DEFICIT, end of year	\$ (4,740,983)	\$ (19,747)
Basic and diluted loss per share	\$ (0.08)	\$ 0.00
Weighted average number of common shares outstanding	60,677,494	35,001,500

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN UNITED STATES DOLLARS)

For the Years Ended December 31,	2006	2005
		(Note 1)
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (4,721,236)	\$ (6,692)
Items not affecting cash:		
Stock-based compensation	1,622,852	-
Restricted stock units	835,361	-
Debenture interest expense	1,551,868	-
Foreign exchange gain	(230,226)	-
Changes in non-cash working capital:		
Inventory	(176,583)	-
Due to shareholders	-	30,000
	(1,117,964)	23,308
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(30,669,922)	(1,389,355)
Repayments from (advances to) related party	260,000	(260,000)
Mobilization charge	(2,520,000)	-
	(32,929,922)	(1,649,355)
FINANCING ACTIVITIES		
Capital contributions	3,708,675	2,510,694
Issue of common shares, net of issue costs	129,778,977	-
Net cash acquired in RTO transaction (Note 2)	1,846,478	-
Net proceeds from Unit Offering (Note 5)	94,524,416	-
	229,858,546	2,510,694
INCREASE IN CASH AND CASH EQUIVALENTS	195,810,660	884,647
CASH AND CASH EQUIVALENTS, beginning of year	944,737	60,090
EFFECT OF EXCHANGE RATE CHANGES ON CASH HELD IN FOREIGN CURRENCIES	230,226	-
CASH AND CASH EQUIVALENTS, end of year	\$ 196,985,623	\$ 944,737
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED (DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

1. NATURE OF OPERATIONS

Katanga Mining Limited ("Katanga" or the "Company"), a development stage entity, was incorporated under the laws of Bermuda on October 7, 1996 and is engaged in the acquisition, and development of mineral properties. On November 30, 2005, the Company changed its name to Katanga Mining Limited.

On December 22, 2005, Katanga purchased a 23.33 percent ownership interest in Kinross Forrest 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 in exchange for its issuance of 35,001,500 common shares and a cash payment of \$800,000. As more fully described in Note 2, as a result of 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 is 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 year ended December 31, 2005, and for the period from January 1, 2006 to June 27, 2006, are those of KFL. KFL incurred no expenses during the period prior to June 27, 2006 as all general and administrative expenses prior to the RTO transaction (see Note 2) were incurred by Katanga.

Katanga, through KCC, is engaged in the refurbishment and rehabilitation of the Kamoto/Dima mining complex in the Democratic Republic of Congo (the "Kamoto Project"). The Kamoto Project includes 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 Democratic Republic of Congo.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has not reached commercial production. In addition to its working capital requirements, the Company currently has estimated capital requirements of \$427 million (inclusive of costs incurred to date) to complete the redevelopment of the Kamoto Project. These expenditures are expected to be made over four phases with each phase designed to increase the level of production capacity. The first phase is estimated to be \$176 million, bringing the assets into initial production by the end of 2007.

The Company has approximately \$197 million in cash and cash equivalents at December 31, 2006. The Company's debt and equity financings to date, while substantial, are not sufficient in and of themselves to enable the Company to fund the completion of all four phases of the redevelopment. Accordingly, management is currently pursuing further financing to fund the redevelopment. As explained more fully in Note 13, the Company has mandated three banks as lead arrangers to arrange and underwrite a total of \$260 million in project financing. If successfully completed, this will provide sufficient funding to complete the redevelopment.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

1. NATURE OF OPERATIONS (Continued)

The Company's ability to continue as a going concern is ultimately dependent upon its ability to fund its working capital, obtain the additional financing to complete the redevelopment of the Kamoto Project and, eventually, to generate positive cash flows from mining operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

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 the issuance of 35,001,500 common shares and a cash payment 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; and accordingly 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 the investment in KFL with respect to feasibility study costs approximates their net book value. No value has been allocated 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.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are presented in United States dollars and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling financial interest. The effects of all transactions between controlled entities are eliminated.

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

Foreign Currency Translation

The functional currency of the Company is the US dollar. The Company's foreign operations are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in operations for the current period.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Significant areas where management's judgement is applied include the carrying value of mineral properties, fair value estimates for stock options and warrants, and estimated lives of depreciable assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less. As at December 31, 2006, the Company held \$183,573,585 of its cash and cash equivalents denominated in United States dollars.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Mineral Interests

All direct costs relating to the mineral interests which meet the generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the recovered minerals to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

Carrying values of mineral interests as reported on the balance sheet may not necessarily reflect the actual present or future value. Recovery of carrying values is dependent upon future commercial success.

Upon establishment of commercial production, carrying values of mineral interests will be amortized over the estimated life of the mine, using the units of production method, based on the current estimated proven and probable reserves.

Other Property, Plant and Equipment

Other property, plant and equipment is recorded at cost and amortized using the following rates and methods:

Access roads	5 years	Straight-line
Computer equipment	3 years	Straight-line
Computer software	1 year	Straight-line
Furniture and fixtures	5 - 10 years	Straight-line
Housing	10 years	Straight-line
Tools	7 years	Straight-line
Vehicles	4 - 7 years	Straight-line
Leasehold improvements	-	Straight-line, over the term of the underlying lease

Asset Retirement Obligations

The fair value of liabilities for asset retirement obligations will be recognized in the period in which they are incurred. Currently there are no asset retirement obligations. However, as the development of any project progresses, the Company will assess whether an asset retirement obligation liability ("ARO") has arisen. At the point where such a liability arises, the financial statement adjustment required will be to increase the project's carrying value and ARO obligation by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to income each year to accrete the discounted ARO obligation amount to the final expected liability.

Mobilization Charge

The Company has entered into an agreement for the contract mining of one of its open pit ore bodies. A payment in the form of a mobilization fee was made in 2006. This mobilization charge has been deferred and will be amortized on a units of production basis over the life of the reserves of the ore body.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory, which consists of consumable materials, is stated at the lower of production cost and net realizable value. Supplies and consumable materials utilized in the development of mineral properties are capitalized to mineral interests.

Deferred Financing Costs

Deferred financing costs, which consist of debenture issue costs have been deferred and are being amortized over the term of the debentures.

Stock-Based Compensation

The Company recognizes the fair value of stock-based compensation over the vesting period of the options and restricted stock units. The fair value of the options granted is calculated using an option pricing model that takes into account the exercise price, expected life of the option, expected volatility of the underlying shares, expected dividend yield, and the risk free interest rate for the term of the option. The fair value of the restricted stock units is based on the market value of the underlying stock on the date of grant.

Income Taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Impairment of Long-Lived Assets

Long-lived assets and intangibles to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, undiscounted future cash flows expected to result from the use of the asset and its disposition are estimated and compared with the carrying values of those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at December 31, 2006.

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. Currently, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted loss per common share are the same.

2005 Figures

Certain of the 2005 figures have been reclassified in order to conform to the 2006 financial statement presentation.

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 companies fiscal years beginning October 1, 2006. The Company is currently assessing the impact of these new standards on its consolidated financial statements.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

4. PROPERTY, PLANT AND EQUIPMENT

Mineral Interests

Mineral interests comprise the following:

	December 31, 2006	December 31, 2005
Feasibility study costs	\$ 6,242,607	\$ 2,383,932
Development costs (Note 8)	24,472,290	-
Property acquisition costs	4,711,232	-
	\$ 35,426,129	\$ 2,383,932

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 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 a presidential decree 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 redevelopment of the Kamoto Joint Venture Assets. 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.

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Other Property, Plant and Equipment

	Cost	Accumulated Amortization	December 31, 2006	December 31, 2005
Access roads	\$ 611,574	\$ 138,868	\$ 472,706	\$ -
Computer equipment	607,509	64,708	542,801	-
Computer software	45,351	22,675	22,676	-
Furniture and fixtures	624,600	59,296	565,304	-
Housing	44,173	2,945	41,228	-
Tools	1,468,683	148,895	1,319,788	-
Vehicles	2,830,549	393,799	2,436,750	-
Leasehold improvements	1,028,772	8,718	1,020,054	-
	\$7,261,211	\$ 839,904	\$ 6,421,307	\$ -

5. DEBENTURES PAYABLE

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Unit Offering") for an aggregate of CDN\$115,000,000. Each Unit consists of a CDN\$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants ("Warrants"). Each Warrant entitles the holder to purchase one common share of the Company anytime within five years from the closing date at CDN\$8.50 per share. The Units do not trade and were separated into Notes and Warrants immediately upon issuance. The Notes bear interest at the rate of 14% per annum, payable semi-annually in arrears in equal installments on January 1 and July 1 of each year, with interest payable from the closing date to June 30, 2007 capitalized and cash interest payments commencing January 1, 2008.

The Company intends to use the net proceeds of the offering to continue the refurbishment and development of the Kamoto Joint Venture Assets in the Democratic Republic of Congo and for general corporate purposes including working capital. The notes mature on November 30, 2013.

Underwriting and transaction costs amounting to CDN\$4,764,878, which were incurred in association with this debt offering have been deferred and are being amortized over the term of the underlying debentures.

The 4,600,000 warrants issued in the Unit Offering have been fair valued using the Black-Scholes valuation model at CDN\$7,728,000 using the following underlying assumptions: dividend yield 0%, expected volatility (based on pricing of warrants at time of debenture issue) 30%, risk-free rate of return 4.26% and expected life of 5 years. The fair value of each stock warrant issued was CDN\$1.68.

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

5. DEBENTURES PAYABLE (Continued)

The debentures payable balance is comprised of the following:

	December 31, 2006	December 31, 2005
Debentures payable	\$ 91,945,095	\$ -
Interest capitalized from closing date and payable on maturity	1,551,868	-
	\$ 93,496,963	\$ -

6. 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	TOTAL
Balance at December 31, 2005 (1)	10,000	\$ 10,000	\$ 2,510,694	\$ 2,520,694
Additional contributions of capital during the period (2)	-	-	3,858,675	3,858,675
Shares issued in RTO Transaction (3)	35,001,500	3,500,150	2,405,886	5,906,036
Shares issued in private placement (4)	21,000,000	2,100,000	127,307,842	129,407,842
Reclassification to reflect par value of shares outstanding (5)	20,922,796	2,095,180	(2,095,180)	-
Warrants exercised during the period	1,103,180	110,318	260,817	371,135
Options vested during the period	-	-	2,874,084	2,874,084
Balance at December 31, 2006	78,037,476	\$ 7,815,648	\$ 137,122,818	\$ 144,938,466

(1) The capital stock and contributed surplus amounts at December 31, 2005 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.

(2) 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.

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(b) COMMON SHARES ISSUED (Continued)

- (3) 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 (1) and (2) above) on June 27, 2006, the date of the RTO Transaction, as described more fully in Note 2.
- (4) Following completion of the RTO Transaction, the Company received net proceeds in the amount of \$129,407,842, previously held in escrow upon the issuance of 21,000,000 subscription receipts in May 2006 at a price of \$7.25 per receipt. Each subscription receipt entitled the holder to acquire one common share without payment of further consideration. Total costs of issue for this private placement amounted to \$6,246,908.
- (5) 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 27, 2006, the date of the RTO Transaction. This reflects 1,000 shares, par value of \$12 each and the remaining shares, par value \$0.10 each.

(c) WARRANTS

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

2005	Exercise price (1)	Outstanding December 31, 2004	Issued during the period	Exercised during the period	Outstanding December 31, 2005
October 6, 2006	\$0.35	2,250,000	-	(412,500)	1,837,500
2006	Exercise price (1)	Outstanding December 31, 2005	Issued during the period	Exercised/ Expired during the period	Outstanding December 31, 2006
October 6, 2006 (2)	\$0.35	1,837,500	-	(1,837,500)	-
October 18, 2006	1.45	-	560,000	(560,000)	-
November 20, 2011 (3)	8.50	-	4,600,000	-	4,600,000
		1,837,500	5,160,000	(2,397,500)	4,600,000

- (1) Denominated in Canadian dollars.
- (2) During the period, 1,187,500 \$0.35 warrants were exercised and 650,000 expired.
- (3) Fair market value assigned to outstanding compensation warrants using the Black-Scholes valuation model is CDN\$7,728,000 (\$6,736,405). These warrants were valued using the Black-Scholes valuation model using the following underlying assumptions: dividend yield 0%, expected volatility 30% (based on pricing of warrants at time of debenture issue), risk-free rate of return 4.26% and expected life of 5 years. The fair value of each stock warrant issued was CDN\$1.68.

The accompanying notes constitute an integral part of these financial statements

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(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)
Outstanding at December 31, 2004 and 2005	-	\$ -
Granted during the period	2,315,000	6.75
Exercised during the period	(125,000)	4.10
Outstanding at December 31, 2006	2,190,000	\$6.90

(1) Denominated in Canadian dollars.

In January 2006, 205,000 options were granted with an exercise price of CDN\$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 CDN\$2.72 per option. The total fair value assigned to these options was \$479,275. These options vested upon issuance.

In April 2006, 850,000 options were granted with an exercise price of CDN\$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 CDN\$5.05 per option. The total fair value assigned to these options was \$3,824,390. These options vest at a rate of 33.33% on each of January 1, 2007, 2008 and 2009, respectively.

In July 2006, 400,000 options were granted with an exercise price of CDN\$6.15. 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 4.38% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN\$4.11 per option. The total fair value assigned to these options was \$1,465,081. These options vest at a rate of 33.33% on each of July 7, 2007, 2008 and 2009, respectively.

In July 2006, 185,000 options were granted with an exercise price of CDN\$6.00. 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 4.36% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN\$4.01 per option. The total fair value assigned to these options was \$660,902. These options vest at a rate of 33.33% on each of July 10, 2007, 2008 and 2009, respectively.

In December 2006, 675,000 options were granted with an exercise price of CDN\$7.30. 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 3.94% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN\$4.85 per option. The total fair value assigned to these options was \$2,826,770. These options vest at a rate of 33.33% on each of December 18, 2007, 2008 and 2009, respectively.

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(d) STOCK OPTIONS

The following table summarizes the stock options outstanding at December 31, 2006:

Exercise Price per Share (1)	Expiry Date	Outstanding Options(2)
\$4.10	January 17, 2011	80,000
\$7.40	April 19, 2011	850,000
\$6.15	July 6, 2011	400,000
\$6.00	July 9, 2011	185,000
\$7.30	December 17, 2011	675,000
		<hr/> 2,190,000

(1) Denominated in Canadian dollars.

(2) Of the 2,190,000 stock options outstanding at December 31, 2006, 2,110,000 are subject to vesting in future periods. The aggregate fair value of these unvested options is \$7,457,550.

7. RESTRICTED STOCK UNITS

In April 2006, 195,000 Restricted Stock Units ("RSUs") were granted to officers of the Company. 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. In July 2006, 50,000 RSUs were granted to an officer of the Company, entitling the holder to one share of the Company's common stock upon vesting. On December 18, 2006, 120,000 RSUs were granted to officers and employees of the Company, entitling the holder to one share of the Company's common stock upon vesting. Both the July and December RSUs vest at a rate of 33.33% on the anniversary of the underlying grant. 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 December 31, 2006 balance sheet is a payable of \$835,361 related to the issuance of the RSUs.

On December 15, 2006, 104,600 RSUs were granted to officers of the Company, entitling the holder to one share of the Company's common stock upon vesting. As the vesting terms are subject to a milestone based performance clause, the achievement of which is not reasonably determinable at this time, no obligation or associated expense has been recognized in these financial statements.

8. 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 - see Note 1) and had other transactions with KFL during the first six months of 2006, as described herein, prior to acquiring all the shares of KFL. The majority of the former shareholders of KFL are also shareholders of Katanga. In December 2005, these shareholders also became officers and/or directors of Katanga.

KATANGA MINING LIMITED

A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

8. RELATED PARTY TRANSACTIONS (Continued)

Kamoto Operating Limited ("KOL"), a company incorporated pursuant to the laws of the DRC, has been appointed to act as the operator of the Kamoto Project pursuant to the Kamoto Joint Venture Agreement and an operating agreement ("Operating Agreement") between KOL and the Company's subsidiary, KCC executed on November 2, 2005. Current shareholders and directors of the Company 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. During the year ended December 31, 2006, management fees totaling \$875,707 (2005 - \$nil) were incurred and accrued to KOL. These fees have been capitalized to mineral interests.

During the year ended December 31, 2006, the Company engaged an entity owned by one of its directors for the sourcing and provision of goods and services including airplanes, construction and other resources. The total paid for these services was \$1,560,591 (2005 - \$nil). In addition, a financing fee of \$48,195 was paid to this entity on advances previously provided (2005 - \$nil). These fees have been capitalized to mineral interests.

KOL, on behalf of KCC, entered into an agreement for the mining of one of its open pit ore bodies with an entity owned by one of its directors. The mining is expected to commence in April 2007 and continue through 2011. A mobilization fee of \$2,520,000 was paid during the year ended December 31, 2006.

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

9. COMMITMENTS

The Company is obligated under the terms of an operating lease for minimum annual rental payments of \$955,000 for a period of five years, commencing September 19, 2006, with an option to renew for a further five years.

The Company estimates its capital expenditures for the redevelopment of the Kamoto Project to be \$427 million (inclusive of costs already incurred) over the next four years ending December 31, 2010. The project is being developed in four phases with each phase designed to increase the level of production capacity. The initial phase, expected to be completed in 2007 is estimated to be \$176 million. Phases II, III and IV are estimated to be \$96 million, \$105 million and \$50 million, respectively. Each of these phases is expected to last one year beginning in January 2008. The Company has contractually committed \$110 million of the Phase I estimate through March 27, 2007. Katanga has also entered into an engineering contract with a vendor for the design of two 400 tonne per day industrial copper concentrate roasters. The initial roaster to be built is part of Phase II of the redevelopment plan and the second roaster to be built is part of Phase III. The contract for the design of these roasters is for \$2 million.

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

10. FINANCIAL INSTRUMENTS

At December 31, 2006, the Company's financial instruments consisted of cash and cash equivalents, prepaid expenses and other sundry assets, accounts payable and accrued liabilities and debentures payable. The Company estimates that the fair value of these financial instruments approximate the carrying values, at December 31, 2006.

11. INCOME TAXES

The following table reconciles the expected income tax recovery at the statutory income tax rate to the loss before income taxes recognized in the statements of operations:

	2006	2005
Net loss before income taxes reflected in the statements of operations	\$ <u>(4,622,756)</u>	\$ <u>(6,692)</u>
Expected income tax recovery at Canadian statutory rates	\$ 1,577,285	\$ (2,417)
Effect of differences in foreign tax rates	13,525	2,417
Effect of change in temporary differences not recognized	326,496	-
Permanant differences	(590,367)	-
Current year's losses not recognized	<u>(1,425,419)</u>	<u>-</u>
Provision for income taxes	\$ <u>(98,480)</u>	\$ <u>-</u>

The following table reflects the future income tax assets at December 31, 2006 and 2005:

	2006	2005
Future Income Tax Assets		
Non-capital losses carried forward	\$ 1,443,392	\$ -
Other	<u>(5,789)</u>	<u>-</u>
	1,437,603	-
Less : Valuation allowance	<u>(1,437,603)</u>	<u>-</u>
Net future tax assets	\$ <u>-</u>	\$ <u>-</u>

The Company has recorded a valuation allowance in respect of taxable losses in the amount of \$1,401,927 as at December 31, 2006 as it can not be determined at this time whether it is more likely than not that the benefit associated with these losses will be realized prior to their expiry.

As at December 31, 2006, the Company had non-capital losses available for future use, expiring as follows:

2007	\$ 97,663
2008	58,821
2009	45,405
2010	52,052
2012 and thereafter	<u>4,408,770</u>
Total	\$ <u>4,662,711</u>

KATANGA MINING LIMITED
A DEVELOPMENT STAGE ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2006 and 2005

12. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development and has assets in Canada, the United Kingdom and the Democratic Republic of Congo, as described below:

December 31, 2006

	Canada	United Kingdom	Democratic Republic of Congo	Total
Cash and cash equivalents	\$ 3,312,139	\$193,110,302	\$ 563,182	\$196,985,623
Other assets	4,223,774	4,568,826	44,301,557	53,094,157
Total Assets	\$ 7,535,913	\$197,679,128	\$ 44,864,739	\$250,079,780

December 31, 2005

	Canada	United Kingdom	Democratic Republic of Congo	Total
Cash and cash equivalents	\$ 944,737	\$ -	\$ -	\$ 944,737
Other assets	260,862	-	2,383,932	2,644,794
Total Assets	\$ 1,205,599	\$ -	\$ 2,383,932	\$ 3,589,531

13. SUBSEQUENT EVENT

The Company has mandated three banks as lead arrangers to arrange and underwrite a total of \$260 million in project financing ("the Facility") for its Kamoto Project. The Facility is expected to include a \$100 million commercial bank tranche, a \$100 million Export Credit Agency tranche and \$60 million from Development Funding Agencies. Each of the banks has obtained approval to proceed on this basis, subject to satisfactory due diligence and documentation. It is expected that the Facility will close during the second quarter of 2007 and will be available for drawdown in the third quarter of 2007.

The Company will use the net proceeds of the Facility to fund the redevelopment of its mine complex and for working capital as the project comes into production. If successfully completed, this facility will provide sufficient funding to complete all four phases of the redevelopment.