

KATANGA MINING LIMITED

December 31, 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 audited consolidated financial statements for the year ended December 31, 2006 and 2005. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. **All dollar amounts unless otherwise indicated are in United States dollars.** This information is presented as of March 27, 2007. Katanga's common share warrants and notes trade on the TSX Exchange under the symbols "KAT" "KAT.WT" and "KAT.NT" respectively. 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.*

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 Limited and a Qualified Person under National Instrument 43-101.

Katanga is engaged in the acquisition and development of mineral properties and is currently focused on the refurbishment and rehabilitation of the Kamoto/Dima mining complex in the Democratic Republic of Congo. Katanga was originally incorporated under the laws of Bermuda on October 7, 1996 under the name New Inca Gold Ltd. On July 8, 2004, the Company changed its name to Balloch Resources Ltd. On November 30, 2005, the Company's name was changed 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 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 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 in the Yanacocha mining district of northeastern Peru. The concession is owned by Northern Peru Copper Corp. The El Molino Project lies contiguous to the 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 Copper Corp. ("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 converted to a 0.5% Net Smelter Return royalty at the end of 2006. In May 2005 Lumina was restructured into four separate companies. The company that now holds the interest in the El Molino Project is Northern Peru Copper Corp.

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 and operated mining enterprise 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 a presidential decree issued on August 4, 2005.

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.

Katanga, through its subsidiary KFL, and Gécamines 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. Katanga must contribute the technical expertise and the necessary capital for the expansion of the Kamoto Joint Venture Assets. The capital is provided through interest bearing advances to KCC. It is anticipated that Katanga will receive repayment of the capital and interest thereon on a preferential basis.

On June 27, 2006 an official signing ceremony was held at the Kamoto mine site to commemorate the formation of the Kamoto Joint Venture and transfer of the Kamoto Joint Venture Assets from Gécamines to KCC.

Financings

Prior to the RTO transaction described above, on October 6, 2004, Katanga completed a private placement financing under which it raised gross proceeds of CDN\$1.125 million by issuing 4.5 million units at a price of CDN\$0.25 per unit. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitled the holder to acquire one additional Common Share at a price of CDN\$0.35 per share until October 6, 2006.

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 13, 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 were exercisable for 12 months following the closing of the offering at an exercise price of CDN\$1.45 per share. All of the compensation warrants have been exercised.

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\$152,250,000. 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, including completion of the RTO. The Company paid the agents a commission equal to 5% of the gross proceeds of the offering.

On November 20, 2006, the Company completed an offering of units (“Units”) in the aggregate amount of CDN \$115,000,000 which included the exercise by the underwriters of their option to purchase an additional CDN \$15,000,000 of Units. Each Unit consisted of a CDN \$1,000 unsecured subordinated note (“Notes”) and 40 common share purchase warrants (“Warrants”). The Notes will mature on November 30, 2013, with an annual interest rate of 14%. Interest payable on the Notes from November 20, 2006 to June 30, 2007 will be capitalized and is payable on maturity, with cash interest payments commencing January 1, 2008. Each Warrant entitles the holder to purchase one common share of the Corporation at anytime on or before November 20, 2011 at a price of CDN \$8.50 per Common Share. The Notes and Warrants commenced trading on the TSX on November 20, 2006 under the symbols KAT.NT and KAT.WT, respectively.

The Company is using the net proceeds of both the Katanga Financing and the Unit Offering to continue the refurbishment and development of the Kamoto Joint Venture Assets and for general corporate purposes including working capital.

2. Selected Annual Information

Selected Annual Information	2006	2005	2004
Interest income	\$2,934,638	\$269	\$ 116
Administrative Expenses	\$6,005,526	\$6,961	\$13,171
Interest Expense	\$1,551,868	\$ nil	\$ nil
Net loss for the year	\$4,721,236	\$6,692	\$13,055
Loss per share	\$0.08	\$ nil	\$ nil
Current assets	\$201,555,260	\$945,599	\$60,090
Mineral interests	\$35,426,129	\$2,383,932	\$ nil
Other property, plant and equipment	\$6,421,307	\$ nil	\$ nil
Total assets	\$250,079,780	\$3,589,531	\$60,090
Current liabilities	\$9,648,929	\$1,088,584	\$63,145
Debentures payable	\$93,496,963	\$ nil	\$ nil
Total liabilities	\$103,145,892	\$1,088,584	\$63,145
Cash dividends declared	\$ nil	\$ nil	\$ nil

There were no sales, operating revenues or cash dividends declared for the periods presented.

Review of Annual Operations

KFL had limited operations in 2004 and the first two quarters of 2005, its only activity being the signing of the Kamoto Joint Venture Agreement with Gécamines 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.

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 first six months of the year ended December 31, 2006.

Phase I implementation of the feasibility study began in the second half of 2006. Administrative expenses for the year were \$6,005,526, net of a foreign exchange gain of \$900,821. Expenses were comprised of corporate activities, reflecting additions to the corporate office staff and relocation of the corporate office. Of this total, \$1,622,852 is stock-based compensation expense relating to the issuance of both stock options and restricted stock units. Additionally, \$1,551,868 of interest expense was incurred related to the Notes. These expenses were offset by interest income of \$2,934,638 earned in the year on cash balances from the Katanga Financing and the Unit Offering. The net loss for the year ended December 31, 2006 was \$4,721,236. Comparable expenses in 2005 were minimal, due to the Company's limited operations prior to entering into the Option Agreement.

3. Selected Quarterly Information

Fiscal 2006

	As at and for the Three Months Ended			
	December 2006	September 2006	June 2006	March 2006
Interest income	\$2,046,612	\$888,026	\$ nil	\$ nil
Administrative expenses	\$2,468,275	\$3,537,251	\$ nil	\$ nil
Interest expense	\$1,551,868	\$ nil	\$ nil	\$ nil
Net loss	\$2,072,011	\$2,649,225	\$ nil	\$ nil
Loss per share	\$0.03	\$0.03	\$ nil	\$ nil
Current assets	\$201,555,260	\$126,164,641	\$131,565,963	\$424,422
Mineral interests and other assets	\$48,524,520	\$18,959,585	\$12,200,954	\$4,803,239
Total assets	\$250,079,780	\$145,124,226	\$143,766,917	\$5,227,661
Current liabilities	\$9,648,929	\$3,978,148	\$2,093,417	\$895,600
Debentures payable	\$93,496,963	\$ nil	\$ nil	\$ nil
Total liabilities	\$103,145,892	\$3,978,148	\$2,093,417	\$895,600
Cash dividends	\$ nil	\$ nil	\$ nil	\$ nil

Fiscal 2005

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

Review of Quarterly Operations

There was no activity in KFL prior to the fourth quarter of 2004. Quarterly expenses prior to second quarter of 2006 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. Payments of feasibility study costs totaled \$2,383,932 in 2005 and \$3,858,675, in 2006.

Following the official signing ceremony on June 27, 2006, Phase I redevelopment activities as defined in the feasibility study began. Initial activities included major clean-up work across the site, further engineering assessments and mobilization of over 1,700 employees. The redevelopment project is on track and costs of \$18,135,703 were capitalized in mineral interests

for the three months ended December 31, 2006 and an additional \$4,752,148 was added to other property, plant and equipment. Costs were also incurred during the three months ended December 31, 2006 to enhance the corporate infrastructure, including the relocation of the corporate office, and the hiring of corporate employees. These amounts were expensed as incurred.

4. 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 first six months of 2006.

Phase I implementation of the feasibility study continued in the fourth quarter ended December 31, 2006. Administrative expenses for the period were \$2,468,275, net of a foreign exchange gain of \$231,062. Administrative expenses were comprised of corporate activities and reflect further additions to the corporate office staff and relocation of the corporate office. Additionally, \$1,551,868 of interest expense was incurred related to the Notes. These expenses were offset by interest income of \$2,046,612 earned in the period on cash balances from the Katanga Financing and Unit Offering. As a result, the net loss for the three months ended December 31, 2006 was \$2,072,011. Expenses in comparable periods in 2005 were minimal, due to the Company's limited operations prior to entering into the Option Agreement.

5. Liquidity and Capital Resources

Katanga's working capital at December 31, 2006 was \$191,906,331 (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 and proceeds of the CDN\$115,000,000 Unit Offering.

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 \$176 million and approximately \$427 million for the entire redevelopment of the Kamoto Joint Venture Assets. Expenditures relating to Phase I have begun and are expected to be completed in calendar 2007. Additional financing will be required for the remaining three phases of the redevelopment of the Kamoto Joint Venture Assets. Katanga anticipates that the combination of the expenditures for the capital costs of Phase I and the working capital required to start-up production with the completion of the Phase I capital work will exhaust the Company's current cash position during the fourth quarter of 2007.

In March 2007, the Company 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, will be available for drawdown in the third quarter of 2007 and will be sufficient to cover the additional financing requirements for the remaining three phases of the \$427 million capital program to redevelop the Kamoto Joint Venture Assets. However, there is no assurance that Katanga will be successful in obtaining this financing as and when needed.

Katanga does not have any off-balance sheet arrangements.

6. Contractual Obligations and Commitments

The Company's outstanding debentures are due November 20, 2013. Interest on the debentures is payable semi-annually in arrears with equal installments on January 1 and July 1 of each year, with interest payable from the closing date to June 30, 2007 capitalized and payable on maturity and cash interest payments commencing January 1, 2008.

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 \$427 million capital program for the redevelopment is expected to be spent over the next four years. The initial phase is expected to be completed in 2007 and to cost \$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 calendar year beginning 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.

7. 2007 Outlook

Katanga expects to produce and ship copper by the end of 2007. The focus during the year will be to complete the capital program for Phase I of the rehabilitation of the Kamoto Joint Venture Assets estimated to cost \$176 million. Key milestones during the year include:

- April 2007 – start the mining of both the Kamoto underground mine and Musonoie-T-17 open pit mine
- July 2007 – Kamoto concentrator begins operation
- September 2007 – refining begins in the Lulu metallurgical plant
- December 2007 – first copper shipped

As part of the rehabilitation process, Katanga will also be focusing on building a site organization capable of safe, efficient and environmentally responsible operation of all mines and plants. A key overall component of this rehabilitation is the upgrading of the community services and infrastructure in and around our site.

Katanga expects to close and begin drawing from the Facility during 2007 which will provide all of the necessary funds to complete all four phases of the estimated \$427 million redevelopment of the Kamoto Joint Venture Assets.

8. 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, fair value estimates for stock options and warrants, and estimated lives of depreciable 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, which are 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.

The fair value of the stock options and warrants is calculated using an option pricing model that takes into account the exercise price, the expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield and the risk free interest rate for the term of the option.

9. 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:

	Number of Shares
Balance – December 31, 2003 and December 31, 2004	5,750,975
Issued for cash	14,000,000
Exercise of warrants	412,500
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Balance – December 31, 2005	20,163,475
Exercise of warrants	1,747,500
Issued for cash	21,000,000
Exercise of options	125,000
Common share adjustment	1
Shares issued to acquire KFL	<u>35,001,500</u>
Balance – December 31, 2006	78,037,476
Outstanding options exercisable at an average of CDN\$6.90 per share and expiring December 17, 2011	2,190,000
Outstanding options exercisable at an average of CDN\$6.86 per share and expiring January 29, 2012	125,000
Outstanding warrants exercisable at CDN\$8.50 per share and expiring November 20, 2011	<u>4,600,000</u>
Fully diluted shares outstanding – March 27, 2007	<u><u>84,952,476</u></u>

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.

On January 18, 2006 the Company 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 Company 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 Company granted 185,000 options all of which were granted to an officer. On July 7, 2006, the Company granted an aggregate of 400,000 options, all of which were granted to directors. On December 18, 2006, the Company granted an aggregate of 675,000 options to an officer and employees at an exercise price of CDN\$7.30 which will expire December 17, 2011. In January 2007, the Company granted an aggregate of 125,000 options to employees and a consultant of the Company at exercise prices ranging from CDN\$6.61 to CDN\$7.20 for a period of five years.

The Company has requested its shareholders, at the upcoming annual meeting of shareholders which is scheduled to take place May 10, 2007, to approve certain amendments to its stock option plan. The proposed amendments will (i) modify the Stock Option Plan to be consistent with the policies of the TSX, (ii) change the method by which the directors fix the exercise price of options granted pursuant to the Stock Option Plan such that the minimum exercise price will be the volume weighted average trading price of the Common Shares on the TSX for the five (5) trading days immediately preceding the relevant date, (iii) change the Stock Option Plan from a "rolling plan" to a "fixed number plan" and limit the maximum number of Options that can be granted under the Stock Option Plan to 3,500,000 Options, (iv) permit the directors to make amendments to the Stock Option Plan that, in their sole judgment are required, without obtaining

the approval of the shareholder of the Company, except for (a) reductions in the exercise price of Options granted to insiders of the Company, (b) amendments to the maximum number of Options that can be granted under the Stock Option Plan to acquire Common Shares, and (c) amendments to extend the terms of outstanding Options granted pursuant to the Stock Option Plan and (v) automatically extend the expiry date of options that expire during a Company imposed black-out period.

10. Other Information

Changes in Accounting Policy

There have been no changes in accounting policies since Katanga's most recently completed financial year.

Material Transactions

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

Use of Financial Instruments

Katanga has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instrument affecting Katanga's financial condition and results of operation is currently its cash.

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.

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 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.

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 Joint Venture Assets pursuant to the Kamoto Joint Venture Agreement and an operating agreement ("Operating Agreement") between KOL and the Company's subsidiary, KCC 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.

KOL, on behalf of KCC, engaged entities owned by one of its directors for the sourcing and provision of goods and services, including airplanes, construction and other resources. During 2006 a total of \$1,560,591 was paid for these items and an additional financing fee of \$48,195 was incurred on advances provided.

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. No expenditures were incurred during the three months ended September 30, 2006; however, a prepayment in the form of a mobilization fee of \$2,520,000 was paid in October 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 are also directors of Katanga.

Other than these transactions, Katanga has not had any transactions with related parties during the year ended December 31, 2006.

Disclosure Controls

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions impacting disclosure with respect to the fiscal year ended December 31, 2006. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. The management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

The Company hired an internal auditor in November 2006 in order to put more emphasis on its internal controls. During 2006 the Company enhanced its internal controls over financial reporting as it expanded its operations, and is continuing to do so in anticipation of initial production.

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. 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.

There are risks specific to Katanga, including: the fluctuations in metal prices as Katanga does not at present hedge metal prices; the provision of power to the project; improvement in the rail and roads is not guaranteed and may impact the delivery of materials into the site and the ability to timely sell the metal production; Katanga's ability to complete the Facility; Katanga's operations and activities are subject to environmental risks; Katanga is subject to international operations and regulatory risks, specifically the political stability of the Democratic Republic of Congo; and HIV/AIDS and other infectious diseases may have a negative effect on the work force and increase medical costs.

The Company's risk factors are discussed in detail in the Company's AIF which are available on SEDAR at www.sedar.com and should be reviewed in conjunction with this document.

Forward Looking Statements

This annual 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.