

KATANGA MINING LIMITED

September 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following discussion and analysis is management's assessment of the results of operations 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 nine months ended September 30, 2007 and its audited consolidated financial statements for the year ended December 31, 2006. 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 has been prepared as of November 12, 2007. Katanga's common shares, 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.*

1. Overview Summary

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.

1.1 Principal Asset

Kamoto Joint Venture

In February 2004, KFL (a wholly owned subsidiary of Katanga Mining Limited) 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 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.

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.

The government of the Democratic Republic of Congo announced that it would be undertaking a review of mining contracts, beginning in June 2007. That review has now been completed and a report has been submitted to Mines Minister Martin Kabwelulu. The submitted report will now be reviewed by the Cabinet and the results of that review are expected in the next couple of months. Katanga's Joint Venture Agreement was negotiated in the context of the country's Mining Code and signed following a rigorous Government approval process.

2. Highlights and Outlook for the nine months to September 30, 2007

Highlights of the nine months to September 30, 2007

- Construction team build up began onsite in January and the last of the major infrastructure contracts were awarded.
- An updated reserves and resources statement was released in February. Proven and probable ore grades for the Kamoto underground mine increased significantly. Total reserves and resources are 161.9 million tonnes of ore with an average copper grade of 3.50% and an average cobalt grade of 0.38%.
- An improved production profile was announced that will see production increase, especially during the early phases. Copper production to the end of 2010 is projected to increase 30 per cent to 266,500 tonnes and cobalt production 63 per cent to 16,000 tonnes.
- The underground mine became operational and blasting began on March 21, 2007.
- Concentrator commissioning began on schedule in mid-July. In July the first sulphide concentrate was produced at the Kamoto Concentrator and pumped down the concentrate delivery pipeline to the completed concentrate receiving area at the Luilu Metallurgical Plant. In total, one sulphide and one oxide mill and 88 flotation cells will be operational in phase one. The seven-kilometer concentrate delivery pipeline to the metallurgical plant was completed in July.
- LN Metals International Ltd was appointed as sole agent for 2007 and 2008 for the marketing of copper and cobalt.
- The National Occupational Safety Association (NOSA) system has been selected as the management tool from which safe working practices and audit standards are being developed at site.
- Community Development activities that commenced in the nine months for the local area include agriculture, enterprise creation, health, sanitation and infrastructure programs.

- Arthur Ditto appointed as Chairman of the Company's Board of Directors on July 3, 2007 following the resignation of Robert Buchan as the Company's Non-executive Chairman.
- Blasting began at the end of September at the Musonoie-T17 open pit mine and the first ore has been extracted.
- On July 6 Central African Mining & Exploration Company plc ("CAMEC") advised Katanga that it intended to make a takeover offer for the Company. In response, Katanga established an Independent Committee of the Board of Directors to review all strategic alternatives available to the Company to achieve maximum value for shareholders. CAMEC's offer was made formally on August 29 and withdrawn on September 6 following uncertainty relating to CAMEC's mining licences in the Democratic Republic of the Congo.
- On October 4, the Independent Committee appointed by the Board concluded that it is currently in the best interests of shareholders for Katanga to obtain the necessary financing to develop its mine complex independently. A US\$150m two-year loan facility was arranged with Glencore International AG and a 10 year off-take contract beginning in 2009 has been agreed to.

Outlook

- First copper production is expected to be shipped by the end of December 2007.
- Combined output for 2007 and 2008 is forecasted at 75 million pounds of copper and 4.6 million pounds of cobalt.
- Commissioning of the oxide circuit at the Kamoto Concentrator began in October and was completed in the same month.
- Commissioning began in October at the Luilu Metallurgical Plant and will continue through November. Following completion of refurbishment, one of the two existing roasters was ready for operation by the end of October.
- Seamless transition into the three further phases of the rehabilitation including examining the feasibility of an accelerated ramp-up of production. Each of the phases will add an additional mill to the sulphide milling circuit and in stage three the second mill in the oxide circuit will begin operation. Stage two, which is forecast to begin in late 2008, and stage three, which is forecast to begin in late 2009, will each see production increases with the addition of a new roaster in the refinery. The final stage of rehabilitation commences in 2010 and positions the mine to reach annual production of up to 150,000 tonnes of copper and 8,000 tonnes of cobalt.
- Improving the skills and operational knowledge of the work force is seen as a major challenge going forward and the Company has started developing and implementing a formal training program to address this issue.

- A comprehensive environmental baseline study is underway and appropriate mitigations and action plans will be included in the Environmental & Social Impact Assessment (ESIA), to be published in early 2008. A major Public Consultation was conducted in April 2007 as part of the ESIA.
- A special meeting of shareholders was held on November 2 to increase Katanga's share capital, the purpose of which was to provide Katanga with the flexibility for future equity financings or acquisitions.

3. Selected Quarterly Information

Fiscal 2007 and 2006

	As at and for the Three Months Ended			
	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Three Months Ended				
Interest income	\$736,466	\$1,574,883	\$2,301,836	\$2,046,612
Administrative expenses	\$10,909,914	\$11,401,683	\$3,858,265	\$2,468,275
Interest expense	\$6,140,937	\$4,085,434	\$3,819,048	\$1,551,868
Net loss	\$16,391,456	\$13,991,498	\$5,435,439	\$2,072,011
Loss per share	\$0.21	\$0.18	\$0.07	\$0.02
As at				
Current assets	\$54,295,480	\$110,758,993	\$170,688,044	\$201,688,958
Mineral interests and other assets	\$223,198,315	\$143,904,867	\$78,344,826	\$48,390,822
Total assets	\$277,493,795	\$254,663,860	\$249,032,870	\$250,079,780
Current liabilities	\$39,811,417	\$16,457,561	\$12,131,031	\$9,648,929
Debentures payable	\$116,347,157	\$107,953,162	\$94,219,118	\$93,496,963
Total liabilities	\$156,158,574	\$124,410,723	\$106,350,149	\$103,145,892
Cash dividends	\$ nil	\$ nil	\$ nil	\$ nil

Fiscal 2006 and 2005

	As at and for the Three Months Ended			
	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Three Months Ended				
Interest income	\$888,026	\$ nil	\$ nil	\$ nil
Expenses	\$3,537,251	\$ nil	\$ nil	\$ nil
Net (loss)	\$2,649,225	\$ nil	\$ nil	\$ nil
Loss per share	\$0.03	\$ nil	\$ nil	\$ nil
As at				
Current assets	\$126,164,641	\$131,565,963	\$424,422	\$945,599
Mineral interests and other assets	\$18,959,585	\$12,200,954	\$4,803,239	\$2,643,932
Total assets	\$145,124,226	\$143,766,917	\$5,227,661	\$3,589,531
Current liabilities	\$3,978,148	\$2,093,417	\$895,600	\$1,088,584
Debentures payable	\$ nil	\$ nil	\$ nil	\$ nil
Total liabilities	\$3,978,148	\$2,093,417	\$895,600	\$1,088,584
Cash dividends	\$ nil	\$ nil	\$ nil	\$ nil

4. Results of Operations

Three months ended September 30, 2007 and 2006

- In the third quarter ended September 30, 2006 implementation of Phase I of the feasibility study began. The expenses for this period are therefore in relation to the development of the mine but are not at the same magnitude as the expenses for the quarter ended September 30, 2007 as activity has increased considerably.
- Administrative expenses for the three months ended September 30, 2007 were \$10,909,914 (2006 \$3,537,251). The majority of the expenses related to the exchange losses incurred of \$7,540,741 (2006 gain of \$669,759) which were caused by the strengthening of the CND\$ against the US\$ in the quarter. The debentures payable are denominated in CND\$ which gave rise to unrealised exchange losses totaling \$7,962,104.
- Stock-based compensation for the three months ended September 30, 2007 of \$2,121,929 was higher for the quarter due to the accrual of restricted stock units which were issuable on production and monetary targets which are expected to be achieved by the year end. For the quarter ended September 30, 2006 the cost was \$2,008,928 which was due to the initial issue of options and restricted stock units at the commencement of the Company which were used to attract qualified individuals to fill executive roles.
- All of the interest expense relates to the debentures payable and totaled \$6,140,937 for the quarter. The debenture was issued in the last quarter of 2006.
- Interest income of \$736,466 was earned in the three months ended September 30, 2007 on the cash balances not yet spent on the rehabilitation of the Kamoto Joint Venture Assets. For the three months ended September 30, 2006 \$888,026 interest was achieved on similar cash balances.
- The above resulted in a net loss for the quarter ended September 30, 2007 of \$16,314,456 before income taxes (2006 - \$2,649,225).

Nine months ended September 30, 2007 and 2006

- The administrative expenses for the nine months to September 30, 2007 totaled \$26,169,861. This included
 - general administrative expenses of \$4,228,296 represent the costs to maintain the head office function in London and maintain the Company's TSX listing in Canada;
 - stock-based compensation of \$4,618,475; and
 - foreign exchange losses of \$16,341,134 of which \$18,434,221 were unrealised losses created by the translation into US\$ of the CND\$ denominated debentures to US\$. Any unrealised losses or gains on the debentures will be realized on their maturity on November 30, 2013.
- The administrative expenses for the nine months ended September 30, 2006 totaled \$3,537,251. As the three months ended September 30, 2006 was the initial first three months of operations, the nine month period expenses are equal to the expenses for the quarter.
- The interest expense in 2007 related wholly to the debentures payable and totaled \$14,045,419 which was offset by interest earned (on cash resources) of \$4,613,184.
- The loss for the period in 2007 was \$35,602,096 before income taxes (2006 - \$2,649,225).

5. Cash Flows

Cash Flows from:	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Operating activities	\$(6,712,012)	\$(921,049)	\$(10,067,194)	\$(921,049)
Financing activities	\$6,062,289	\$351,127	\$6,239,114	\$133,467,644
Investing Activities	\$(62,328,620)	\$(8,164,550)	\$(155,584,423)	\$(10,761,903)

Three months ended September 30, 2007 and 2006

- As discussed under results of operations the majority of operating expenses, in the three and nine months periods ended September 2007 and 2006 are non-cash. For the three months ended September 30, 2007, operating expenses included unrealized foreign exchange losses on the debentures of \$7,734,063, \$1,953,521 expenses for stock-based compensation and \$5,921,844 for debenture interest, the majority of which is payable in future periods. For the three months ended September 30, 2006, operating expenses included \$1,770,676 for stock-based compensation with the net cash to finance operating activities being \$921,049.
- For the three months ended September 30, 2007, inventory (in operating activities) increased by \$5,929,984 as a result of the build-up of spares in preparation for initial production later in the year. There was no inventory in 2006.
- The financing activities in the three months ended September 30, 2007 all relate to the issue of common shares in relation to the exercise of options (\$1,033,799) and warrants (\$5,028,490). The amount for the three months ended September 30, 2006 relates wholly to warrants exercised in the quarter.
- Investing activities in the three months ended September 30, 2006 relate to costs incurred on the start of Phase I of the rehabilitation project. For 2007, investing activities relate to similar costs incurred but at a much higher level due to the increase in activity as the Company nears production.

Nine months ended September 30, 2007 and 2006

- The operating cash costs for the nine months ended September 30, 2006 are the same as those for the quarter then ended. For the nine months ended September 30, 2007, the majority of the expenses were again non-cash and the \$10,067,194 in operating cash expenditure relates primarily to costs incurred in the build-up of inventory.
- On May 2, 2006, the Company received aggregate gross proceeds of CDN\$ 152,250,000 upon the issuance of a total of 21,000,000 subscription receipts which entitled the holder to acquire one Katanga common share without further consideration. The net proceeds of the issue of these subscription receipts was US \$129,407,842. The additional source of funds in financing activities in 2006 relates to the exercise of warrants and \$3,708,675 in capital contribution which was used to fund the feasibility study.
- For the nine months ended September 30, 2007, \$1,210,624 was received upon the exercise of 216,677 options and \$5,028,490 upon the exercise of 633,600 warrants.

- The investing activities for 2006 and 2007 relate mainly to the refurbishment of the mine-site but also include \$9.7 million in 2007 spent on new property, plant and equipment for operational purposes.

6. Discussions of Financial Position and Liquidity

	September 30, 2007	December 31, 2006
	\$	\$
Assets		
Cash and cash equivalents	37,868,422	196,985,623
Other current assets	16,427,058	4,703,335
Property, plant and equipment	220,678,315	41,847,436
Other non current assets	2,520,000	6,543,386
	<u>277,493,795</u>	<u>250,079,780</u>
Liabilities		
Current liabilities	39,811,417	9,648,929
Debentures payable	116,347,157	93,496,963
	<u>156,158,574</u>	<u>103,145,892</u>
Shareholders' equity	<u>121,335,221</u>	<u>146,933,888</u>

Cash and Cash Equivalents / Liquidity

Cash and cash equivalents decreased by \$159,117,201 during the nine months ended September 30, 2007. This is primarily due to the expenditures incurred to complete Phase I of the Kamoto Project. All cash is held in interest bearing accounts and none has been invested in asset - backed commercial paper.

In terms of liquidity the Company, subsequent to September 30, 2007, finalized a convertible loan facility for \$150 million, as explained more fully in Note 13 to the Company's September 2007 unaudited interim financial statements. As a result of the completion of the \$150 million financing the Company should now have sufficient cash to meet its cash requirements to complete Phase 2 of the redevelopment project.

Property, Plant and Equipment

The increase in property, plant and equipment during the nine months ended September 30, 2007 of \$155,584,423 is primarily related to additions to the Kamoto Joint Venture Assets (investing activities) and the acquisition of property, plant and equipment.

Current Liabilities

The increase in liabilities of \$30,162,488 during the nine months to September 30, 2007, is due to an increase in creditors at the mine-site. Also the debenture interest is no longer being added to

the principal balance outstanding as of the July 1, 2007 and is now being accrued for under current liabilities (the interest accrued from July 1, 2007 to December 31, 2007 will be payable in January 2008).

Debentures Payable

The increase in debentures payable of \$22,850,194 during the nine months to September 30, 2007, comprises interest added to the principal outstanding of \$9,883,549, transition adjustments for new accounting standards for deferred financing costs of \$3,915,708 and unrealized foreign exchange translation losses of \$18,434,221.

7. Contractual Obligations and Commitments

The Company's outstanding debentures are due November 30, 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 \$1,039,798 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 \$499 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 \$172 million. Phases II, III and IV are estimated to be \$136 million, \$124 million and \$64 million, respectively. Each of these phases is expected to last one year beginning in January 2008. 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 \$3.8 million.

8. Changes in Accounting Policies

On January 1, 2007, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants:

Handbook Section 1530, Comprehensive Income, Section 3251, "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", and Section 3865, "Hedges". The Company adopted these standards retrospectively; accordingly comparative amounts for prior periods have not been restated.

As a result of the adoption of the new standards, the Company has measured its accounts payable and accrued liabilities, restricted stock units and debentures payable at amortized cost and they are classified as other financial liabilities.

Upon adoption of Section 3855, the Company is using the effective interest method of amortization for transaction costs fees and discounts incurred relating to the debentures payable.

The liability was re-measured upon implementation at the present value of future payments discounted at the effective interest rate in the instrument. Upon transition to the new standard, the Company recorded an adjustment that eliminated the deferred financing cost asset, decreased debentures payable by \$4,023,386 and increased opening deficit by \$107,678.

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

9. 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.

10. Outstanding Share Data

Summary of Outstanding Securities

(a) Authorized: 1,000 common shares, par value \$12.00 each, and 300,000,000 common shares, par value \$0.10 each.

(b) Issued:

	Number of Shares
Opening – 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
Exercise of options	216,667
Exercise of warrants	633,600
Balance – September 30, 2007	<u>78,887,743</u>
Exercise of options	-
Exercise of warrants	-
Balance – November 12, 2007	<u><u>78,887,743</u></u>

The Company has a Stock Option Plan which is consistent with the policies of the Toronto Stock Exchange (the “TSX”). The maximum number of options that can be granted under the Stock Option Plan is 3,500,000 options. As of November 12, 2007, 3,015,000 options have been granted of which 2,573,333 are still outstanding. Options may be granted to the Company’s directors, senior officers, employees, consultants and consultant companies.

11. Other Information

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 and cash equivalents and the debentures payable.

Related Party Transactions

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 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 nine months ended September 30, 2007, management fees totaling \$4,917,714 (2006 - \$875,707) were incurred and accrued to KOL. These fees have been capitalized to mineral interests.

During the nine months ended September 30, 2007, 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), mining of one of its open pit ore bodies and the construction of a tailings dam. The total paid for these services was \$12,978,185 (2006 - \$nil).

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 pre-stripping commenced in April 2007 and mining under the contract is expected to continue through 2011. A mobilization fee of \$2,520,000 was paid 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 activities. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures as of September 30, 2007 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.

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 raise funds as required; 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.

12. Health, Safety and Environment

Katanga Mining Limited and Kamoto Operating Limited (KOL) recognise the critical importance of providing employees with a safe and healthy work environment and the organisation is actively implementing policies, standards, training, audit protocols and health, safety and environmental (HSE) reporting across its operations. This includes emergency response preparedness and training as well as job task analysis and relevant training.

An extensive Environmental & Social Impact Assessment (ESIA) is underway and final report together with Environmental & Social Management plans will be published in February 2008, following a further round of Public Consultation. The environmental baseline includes air, noise, surface water, and groundwater measurements. KOL has also developed an ongoing consultation process which ensures there is constant dialogue with the local communities and which can be the basis for partnerships in community development activities. Current community development programs include the complete redevelopment of a 30 hectare farm into a viable cooperative, drain clearance to prevent standing water (and therefore reduce mosquito breeding), concrete block making, road maintenance and the development of long-term projects in the area of community health.

13. Recent Developments

Authorized share capital

On November 2, 2007, shareholders approved an increase in the authorized share capital of the Company to 1,000 common shares with a par value of \$12.00 and 300,000,000 common shares with a par value of \$0.10.

Convertible loan facility

On November 2, 2007, the Company's subsidiary Kamoto Copper Company SARL finalized a convertible loan facility with Glencore International AG ("Glencore"). The key terms of the loan facility are as follows:-

- US\$ 150 million facility
- 2 year term
- Interest rate of Libor plus 4%
- First year's interest added to the loan principal
- Mandatory prepayment on change of control
- Subordination agreement making the loan senior ranking to other indebtedness
- Right to convert into 9,157,509 shares of the Company as long as the loan is outstanding
- The loan may be prepaid at any time
- If the loan is prepaid during the first year, Glencore will have the option to purchase common shares of the Company at the exchange price (\$16.38) up to the date of the first anniversary of the loan
- The loan is guaranteed by the Company

Merger

The Boards of the Company and Nikanor PLC (“Nikanor”) announced on November 6, 2007 that they have reached agreement on the terms of a recommended combination of the two companies (the “Merger”). The Merger will create a company with the potential to become by 2011 Africa’s largest copper producer and the world’s largest cobalt producer.

Summary

- The Merger will bring together the adjacent properties in the Democratic Republic of Congo (DRC) owned by Katanga and Nikanor, which were previously part of the same mine complex, to create a major single-site operation.
- Based on work completed to date, the Merged Company intends to develop a unified mine complex with annual output approaching 400,000 tonnes of copper and 40,000 tonnes of cobalt by 2011. It is believed that the combined operations will be the largest single-site project in the world producing both copper and cobalt.
- The Merger is expected to deliver significant value enhancement for shareholders of both companies resulting from capital savings, lower unit operating costs and increased production.
- More cost effective operations are expected to increase revenue to the DRC government. The coordination of the Merged Company’s infrastructure spend and corporate social responsibility activities will also be more effective in producing positive change for the communities surrounding the operations.
- Officials in the DRC have been kept apprised of the potential Merger and have expressed their support.
- The Merger will be implemented by way of an offer by Katanga for Nikanor together with a Cash Return to Nikanor shareholders of US\$452 million.
- The Merged Company will be well-funded, with a pro forma cash balance of approximately US\$745 million as at 30 September 2007, after taking account of the Cash Return.
- The Merged Company will follow Katanga and Nikanor’s existing strategies of financing their projects through a mixture of debt and equity. The level of additional financing required will be determined as part of a combined business plan, but it is expected that production from Katanga and a phased approach to capital expenditure will result in a lower and delayed requirement for additional financing than for Nikanor standalone.
- Katanga has received irrevocable undertakings to support the Merger and accept the Offer from Glencore Finance, RP Capital Entities with interests in Nikanor Shares, Oakey Invest Holdings Inc. and Pitchley Properties Limited representing 78.4 per cent of Nikanor shares in issue.
- Nikanor has received irrevocable undertakings from Arthur Ditto, Tain Holdings Limited, George Forrest and RP Capital Entities with interests in Katanga Shares representing 48.1 per

cent of Katanga shares in issue to support the Merger and not to accept any competing proposal.

- In addition, Arthur Ditto and Tain Holdings Limited have undertaken to vote in aggregate in respect of 6,843,000 Katanga Shares, representing 8.7 per cent of Katanga shares in issue, in favor of the Merger at the Katanga extraordinary general meeting.
- The Merged Company, which will retain the name Katanga Mining Limited, will make an application to obtain a primary listing on the Main Market of the London Stock Exchange within 5 months of the Effective Date. The Merged Company will therefore have primary listings on the TSX and the Main Market of the London Stock Exchange.

Merger terms

The Merger will be effected by:-

- a) The issue by the Company of 0.613 new common shares for each Nikanor share outstanding (the “Offer”); and
- b) The payment of \$2.16 in cash to each Nikanor shareholder contemporaneously with the closing of the Offer (the “Cash Return”). The Cash Return will be paid from Nikanor’s existing cash resources.

A total of up to 128.1 million New Katanga Shares will be issued upon completion of the Offer. Immediately following completion of the Offer, Nikanor’s current shareholders will own 60 percent and Katanga Shareholders will own 40 percent of the Merged Company calculated on a fully diluted basis, excluding the convertible loan from Glencore.

Katanga and Nikanor have entered into an Implementation Agreement in relation to the Merger, which contains provisions regarding the implementation of the Merger and certain assurances and confirmations between the parties.