

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

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KATANGA MINING LIMITED

(A 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 a system of internal control over the financial reporting process, which is designed to provide reasonable assurance that relevant and reliable 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 and provide an independent professional opinion thereon. 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 statements 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 which is comprised of independent non-executive directors, assists the Board of Directors in fulfilling this responsibility. 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 consolidated 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.

Signed by
Arthur H. Ditto
President and Chief Executive Officer

Signed by
Stephen M. Jones
Senior Vice President and Chief Financial
Officer

March 18, 2008

Auditors' Report

To the Shareholders of Katanga Mining Limited

We have audited the consolidated balance sheets of Katanga Mining Limited as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss and deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

March 18, 2008

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

December 31,	2007	2006
Assets		
Current		
Cash and cash equivalents	\$ 100,713,650	\$ 196,985,623
Inventory of supplies	16,260,313	176,583
Prepaid expenses and other current assets	11,539,175	4,526,752
	128,513,138	201,688,958
Property, plant and equipment (Note 4)	298,262,527	41,847,436
Mobilization charge (Note 9)	2,520,000	2,520,000
Future income tax asset (Note 11)	600,790	-
Deferred financing costs (Note 3)	-	4,023,386
Deferred acquisition costs	18,925,646	-
	\$ 448,822,101	\$ 250,079,780
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 43,450,128	\$ 8,813,568
Restricted stock units (Note 8)	5,291,164	835,361
Accrued acquisition costs	18,403,541	-
	67,144,833	9,648,929
Long-term		
Convertible debt (Note 6)	149,517,502	-
Debentures payable (Note 5)	118,012,492	93,496,963
	334,674,827	103,145,892
Shareholders' Equity		
Capital stock (Note 7)	7,900,675	7,815,648
Warrants (Note 7)	5,808,538	6,736,405
Contributed surplus (Note 7)	150,424,341	137,122,818
Equity component of convertible debt (Note 6)	2,716,249	-
Deficit	(52,702,529)	(4,740,983)
	114,147,274	146,933,888
	\$ 448,822,101	\$ 250,079,780

Nature of Operations - Note 1; Commitments – Note 10; Acquisition of Nikanor Plc – Note 15

Approved by the Board of Directors

Signed by
Arthur H. Ditto (Director)

Signed by
Robert G. Wardell (Director)

The accompanying notes constitute an integral part of these consolidated financial statements

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
AND DEFICIT

(EXPRESSED IN UNITED STATES DOLLARS)

For the Years Ended December 31,	2007	2006
Expenses		
General and administrative	\$ 8,538,835	\$ 4,045,781
Professional fees and consulting	1,918,297	1,237,714
Stock-based compensation	5,171,296	1,622,852
Foreign exchange loss (gain) (Note 5)	18,369,974	(900,821)
Loss for the year before the following:	(33,998,402)	(6,005,526)
Debt interest	(18,996,049)	(1,551,868)
Interest income	4,711,633	2,934,638
Loss for the year before income taxes:	(48,282,818)	(4,622,756)
Recovery of (provision for) income taxes (Note 11)	428,950	(98,480)
Net loss and comprehensive loss for the year	(47,853,868)	(4,721,236)
DEFICIT, beginning of year	(4,740,983)	(19,747)
Transition adjustment (Note 3)	(107,678)	-
DEFICIT, end of year	\$ (52,702,529)	\$ (4,740,983)
Basic and diluted loss per common share	\$ (0.61)	\$ (0.08)
Weighted average number of common shares outstanding	78,447,108	60,677,494

The accompanying notes constitute an integral part of these consolidated 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,	2007	2006
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (47,853,868)	\$ (4,721,236)
Items not affecting cash:		
Stock-based compensation	3,123,630	2,458,213
Debenture interest	17,598,534	1,551,868
Unrealized foreign exchange loss (gain) (Note 5)	19,964,100	(230,226)
Future income taxes (Note 11)	(600,790)	-
Changes in non-cash working capital:		
Inventory	(16,083,730)	(176,583)
	(23,852,124)	(1,117,964)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(227,884,044)	(30,669,922)
Acquisition costs	(522,105)	-
Mobilization charge	-	(2,520,000)
Repayment from related party	-	260,000
	(228,406,149)	(32,929,922)
FINANCING ACTIVITIES		
Capital contributions	-	3,708,675
Proceeds from convertible debt (Note 6)	150,000,000	-
Net cash acquired in RTO transaction (Note 2)	-	1,846,478
Net proceeds from Unit Offering (Note 5)	-	94,524,416
Issue of common shares, net of issue costs	6,239,114	129,778,977
	156,239,114	229,858,546
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(96,019,159)	195,810,660
CASH AND CASH EQUIVALENTS, beginning of year	196,985,623	944,737
Effect of exchange rate changes on cash held in foreign currencies	(252,814)	230,226
CASH AND CASH EQUIVALENTS, end of year	\$ 100,713,650	\$ 196,985,623
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash interest paid	\$ 1,505,191	\$ -
Cash income taxes paid	\$ 216,188	\$ -

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KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Katanga Mining Limited ("Katanga" or the "Company") is incorporated under the laws of Bermuda.

Katanga, through Kamoto Copper Company SARL ("KCC"), is engaged in copper and cobalt mining and related activities, including the refurbishment and rehabilitation of the Kamoto/Dima mining complex in the Democratic Republic of Congo (the "Kamoto Project") and the extraction and processing of copper and cobalt metals. 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 ("DRC").

In January 2008, the Company completed the acquisition of Nikanor Plc ("Nikanor") (Note 14) whose operations include mining properties, a concentrator and various oxide open pit resources, the largest of which is the KOV pit. The acquisition brings together the adjacent properties in the DRC owned by Katanga and Nikanor to create a major single-site copper and cobalt operation.

The operating cash flow and profitability of the Company will be affected by various factors, including the amount of copper and cobalt produced and sold, the market prices for copper and cobalt, operating costs, interest rates, environmental costs and the level of exploration activity and other discretionary costs and activities. The Company is exposed to fluctuations in foreign currency exchange rates, political risks and varying levels of taxation. The Company seeks to manage risks associated with its business, however many of the factors affecting these risks are beyond the Company's control.

KATANGA MINING LIMITED (A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

2. REVERSE TAKEOVER ACCOUNTING

On December 12, 2005, Katanga acquired a 23.33% ownership in Kinross Forrest Limited ("KFL") for \$4,711,232.

Pursuant to an option agreement dated July 29, 2005, as amended by agreements dated November 9, 2005 and March 15, 2006 (the "Option Agreement") KFL granted an option to Katanga to purchase the 76.67% of the outstanding shares of KFL it did not already own, in exchange for 35,001,500 common shares of Katanga and 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. Accordingly, the exchange of shares has been accounted for as an acquisition of Katanga by KFL, referred to as a "reverse takeover" ("RTO"). The agreement closed on June 27, 2006. Application of RTO accounting results in the following:

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

Fair 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, 2007 and 2006

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 ("Canadian 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 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 the determination of income 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 judgment is applied include the carrying value of mineral properties and future income taxes, fair value estimates for stock options, warrants and restricted stock units, 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.

KATANGA MINING LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

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 do not necessarily reflect the actual present or future value. Recovery of carrying values is dependent upon the future commercial success of operations.

Upon establishment of commercial production, carrying values of mineral interests will be amortized over the estimated life of the mines, using the units of production method, based upon the current estimated recoverable reserves and resources.

Other Property, Plant, Equipment and Amortization

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

Access roads	1 - 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
Automobiles	4 - 7 years	Straight-line
Leasehold improvements	-	Straight-line, over the term of the underlying lease

Inventory of supplies

Inventory of supplies, which consists of consumable materials, is stated at the lower of cost and net realizable value. Consumable materials are capitalized to mineral interests as they are utilized when they are expected to provide future economic benefit to the Company.

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 at the date of grant and is revalued based on the market value at the balance sheet date.

The accompanying notes constitute an integral part of these consolidated financial statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2007 or 2006.

Loss Per Common Share

Basic loss per common 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 common share purchase options, warrants and on the conversion of debt, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options, warrants and the conversion of debt. Currently, the effect of potential issuances of shares under options, warrants and the conversion of debt would be anti-dilutive, and accordingly basic and diluted loss per common share are the same.

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 as the Company had not yet started commercial operations as of December 31, 2007. 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 projects 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.

KATANGA MINING LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Acquisition Costs

Costs incurred prior to December 31, 2007 relating to the acquisition of Nikanor have been deferred and shown on the consolidated balance sheet as deferred acquisition costs until the acquisition date, January 11, 2008, at which point they have been considered as part of the cost of acquisition of Nikanor (see Note 14).

New Accounting Policies

a) Financial instruments, comprehensive income and hedges

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 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 (see Note 5). 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.

b) Accounting changes

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.

c) Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on January 1, 2008.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments — Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

2006 Figures

Certain of the 2006 figures have been reclassified to conform with current year financial statement presentation.

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

4. PROPERTY, PLANT AND EQUIPMENT

Mineral Interests

	December 31, 2007	December 31, 2006
Feasibility study costs	\$ 6,242,607	\$ 6,242,607
Development costs	272,021,605	24,472,290
Property acquisition costs	4,711,232	4,711,232
	\$ 282,975,444	\$ 35,426,129

In February 2004, KFL entered into a joint venture agreement (the "Kamoto Joint Venture Agreement") with La Générale des Carrières et des Mines ("Gécamines"), the state owned and operated mining enterprise of the 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").

KFL and Gécamines are utilizing a DRC incorporated and organized company, 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.

Other Property, Plant and Equipment

	Cost	Accumulated Amortization	December 31, 2007	December 31, 2006
Access roads	\$ 595,148	\$ 595,148	\$ -	\$ 472,706
Computer equipment	2,378,162	366,252	2,011,910	542,801
Computer software	88,318	67,905	20,413	22,676
Furniture and fixtures	1,104,262	189,868	914,394	565,304
Housing	2,128,948	5,888	2,123,060	41,228
Tools	2,511,400	333,604	2,177,796	1,319,788
Vehicles	6,113,562	1,204,643	4,908,919	2,436,750
Leasehold improvements	1,114,050	120,123	993,927	1,020,054
Assets in transit	2,136,664	-	2,136,664	-
	\$18,170,514	\$ 2,883,431	\$15,287,083	\$ 6,421,307
Total property, plant and equipment			\$298,262,527	\$41,847,436

The accompanying notes constitute an integral part of these consolidated financial statements

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

5. DEBENTURES PAYABLE

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Units") 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 which trade separately. 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 added to the principal and cash interest payments commencing January 1, 2008. The Company may redeem the Notes, in whole or in part, at any time after November 20, 2009.

The Company is using 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 20, 2013.

The resulting 4,600,000 warrants were fair valued using the Black-Scholes valuation model at CDN\$7,728,000 (\$6,736,405) 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 warrant issued was CDN\$1.68.

The debentures payable balance is comprised of the following:

	December 31, 2007	December 31, 2006
Debentures payable, beginning of year	\$ 93,496,963	\$ -
Changes during the year:		
2006 upon issuance	-	91,945,095
Interest capitalized from closing date and payable upon maturity	8,331,681	1,551,868
Transition adjustment - deferred financing costs (Note 3)	(4,023,386)	-
Transition adjustment - interest (Note 3)	107,678	-
Foreign exchange translation loss (1), (2)	20,099,556	-
Debentures payable, end of year	\$ 118,012,492	\$ 93,496,963

- (1) The foreign exchange translation loss is unrealized and represents the revaluation of the CDN dollar denominated debentures to US dollars. The foreign exchange translation amount will change annually in accordance with the relevant movement of the CDN dollar to the US dollar. The foreign exchange translation gain or loss will be realized upon maturity of the debentures on November 20, 2013.
- (2) The unrealized foreign exchange loss in the year ended December 31, 2007 of \$18,369,974 in the consolidated statement of operations and comprehensive loss and deficit and \$19,964,100 in the consolidated statement of cash flows (shown as an item not affecting cash) includes a \$20,099,556 foreign exchange translation loss on the debentures.

The accompanying notes constitute an integral part of these consolidated financial statements

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

6. CONVERTIBLE DEBT

The convertible debt is comprised of the following:

	December 31, 2007	December 31, 2006
Glencore International AG debt facility – principal amount	\$ 150,000,000	\$ -
Equity component of convertible debt (1)	(2,716,249)	-
Capitalized interest	2,007,397	-
Accretion (2)	226,354	-
	\$ 149,517,502	\$ -

On November 5, 2007, the Company's subsidiary KCC finalized a debt facility with Glencore International AG ("Glencore"). The key terms of the debt facility are a 2 year term, interest rate of LIBOR plus 4%, first year's interest added to the loan principal at the end of the first year, full amount repayable at the end of the 2 year term, mandatory prepayment on change of control, subordination agreement making the loan senior ranking to other indebtedness and the loan is guaranteed by the Company.

On October 31, 2007 the Company signed a conversion agreement with Glencore. The agreement gives Glencore the right to convert the full loan, at any time in the first and second year, as long as the loan is outstanding, into 9,157,509, common shares of the Company. The loan is repayable at any time and if it is repaid, in part or in full, by the Company in the first year, Glencore has the option to purchase common shares of the Company at the price of \$16.38 each equal to the amount of the principal repaid at any time ending on November 4, 2008. In the second year if the loan is repaid early, in part or in full, Glencore has the same right but must exercise it within 21 days.

(1) The equity component of the convertible debt has been valued by determining the carrying amount of the financial liability by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have the associated equity component (LIBOR plus 5%). The carrying amount of the equity instrument was then determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole. On issuance of the debt the estimated fair value of \$2,716,249 attributed to the equity component was classified in shareholders' equity on the consolidated balance sheet.

(2) The convertible debt is being accreted to its face value over the term of the loan with a corresponding interest expense charge over the term of the debt. Up to December 31, 2007, \$226,354 of this interest has been capitalized to mineral interests.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

(a) AUTHORIZED

1,000 common shares, par value \$12.00 each
300,000,000 common shares, par value \$0.10 each

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 (2006 - 1,000 common shares) and 300,000,000 common shares with a par value of \$0.10 (2006 - 100,000,000 common shares).

The accompanying notes constitute an integral part of these consolidated financial statements

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(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 year (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 year	1,103,180	110,318	260,817	371,135
Options vested during the year	-	-	2,874,084	2,874,084
Balance at December 31, 2006	78,037,476	\$ 7,815,648	\$ 137,122,818	\$ 144,938,466
Options exercised during the year	216,667	21,667	1,188,956	1,210,623
Warrants exercised during the year	633,600	63,360	5,892,997	5,956,357
Options vested during the year	-	-	6,219,570	6,219,570
Balance at December 31, 2007	78,887,743	\$ 7,900,675	\$ 150,424,341	\$ 158,325,016

- (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.
- (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.

The accompanying notes constitute an integral part of these consolidated financial statements

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(c) WARRANTS

The following table reflects the continuity of warrants during 2006:

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

The following table reflects the continuity of warrants during 2007:

Expiry date	Exercise price (1)	Outstanding December 31, 2006	Issued during the year	Exercised/ Expired during the year	Outstanding December 31, 2007
November 20, 2011 (1)	CDN\$8.50	4,600,000	-	(633,600)	3,966,400

(1) The fair market value originally assigned to outstanding warrants was CDN\$7,728,000 (\$6,736,405). CDN\$1,064,448 (\$927,867) was transferred from warrants to capital stock and contributed surplus with respect to warrants exercised during the year.

(d) STOCK OPTIONS

The following table reflects the continuity of stock options for the years presented:

	Number of Stock Options	Weighted Exercise Price per Share(1)
Balance outstanding at December 31, 2004 and 2005	-	\$ nil
Granted during the year	2,315,000	6.75
Exercised during the year	(125,000)	4.10
Outstanding at December 31, 2006	2,190,000	\$ 6.90
Granted during the year	1,275,000	14.58
Cancelled during the year	(100,000)	7.30
Exercised during the year	(216,667)	6.06
Outstanding at December 31, 2007	3,148,333	\$ 10.06

(1) Denominated in Canadian dollars.

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

During the year ended December 31, 2007, 1,275,000 (2006 – 2,315,000) options were granted with exercise prices ranging from \$6.61 to \$20.10 (2006 - \$4.10 to \$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 60% to 84%, risk-free rate of return 3.5% to 4.4% and expected maturity of 5 years. The weighted average grant date fair value of each option was \$8.09 (2006 - \$4.00). The total fair value assigned to these options was \$10,320,218 (2006 - \$9,256,418). These options vest at a rate of 33.33% in each of 2008, 2009 and 2010, respectively (2006 – 33.33% in each of 2007, 2008 and 2009).

The following table summarizes the stock options outstanding at December 31, 2007:

Exercise Price per Share (1)	Expiry Date	Exercisable Outstanding	
		Options	Options (2)
\$4.10	January 17, 2011	30,000	-
\$7.40	April 19, 2011	216,666	566,667
\$6.15	July 6, 2011	100,000	200,000
\$6.00	July 9, 2011	61,667	123,333
\$7.30	December 17, 2011	191,667	383,333
\$7.20	December 31, 2011	-	50,000
\$6.61	January 7, 2012	-	50,000
\$6.66	January 29, 2012	-	25,000
\$12.81	April 1, 2012	-	175,000
\$15.97	May 6, 2012	-	25,000
\$16.29	May 9, 2012	-	100,000
\$17.50	June 3, 2012	-	25,000
\$18.09	July 1, 2012	-	50,000
\$20.10	August 31, 2012	-	100,000
\$17.93	September 25, 2012	-	50,000
\$16.28	October 12, 2012	-	50,000
\$14.61	December 5, 2012	-	575,000
		600,000	2,548,333

(1) Denominated in Canadian dollars.

(2) The aggregate fair value of these unvested options not yet charged to operations is CDN\$ 9,880,116.

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8. RESTRICTED STOCK UNITS

During the year ended December 31, 2007, 396,272 Restricted Stock Units ("RSU's") were granted to the Company's directors, senior officers, employees, consultants and consultant companies (2006 – 365,000 RSU's). Each unit entitles the holder to one share of the Company's common stock upon vesting. The RSU's vest at a rate of 33.33 % in each of 2008, 2009 and 2010, respectively. Upon vesting, the Company is obligated to provide a trustee with the necessary funds to enable the trustee to acquire the Company's common stock in the marketplace for the benefit of the holder. The holders of the RSU's have no rights of ownership associated with common shares until the RSU's have vested and the common shares have been transferred to the participant. Included on the Company's December 31, 2007 balance sheet is a payable of \$5,291,164 (CDN\$ 5,190,469) related to the issuance of 740,434 RSU's (December 31, 2006 - \$835,361 related to the issuance of 365,000 RSU's).

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. The vesting terms were subject to a milestone based performance clause, the Board of Directors deemed that the clause had been satisfied and the associated expense has been recognized in these financial statements. A further 3,772 were granted in 2007 under similar terms to an officer of the Company and these have also vested and been expensed in these financial statements.

9. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in these consolidated financial statements include:

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 year ended December 31, 2007, management fees totaling \$7,326,518 (2006 - \$875,707) were incurred and accrued to KOL. These fees have been capitalized to mineral interests.

The Company has the option to acquire KOL ("KOL Call Option"). The purchase price payable if the KOL Call Option is exercised will be determined by an independent investment bank agreed to between the parties as the fair market value to the KOL shareholders, as at the date of the valuation, based on an agreed cash flow model. The consideration will be paid in cash or shares of the Company at the option of the KOL shareholders.

During the year ended December 31, 2007, the Company engaged an entity owned by one of its directors for the sourcing and provision of goods and services (including 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 \$20,324,997 (2006 - \$1,560,591) and as at December 31, 2007 \$3,409,915 was included in accounts payable and accrued liabilities (2006 - \$nil).

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9. RELATED PARTY TRANSACTIONS (Continued)

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 is expected to continue through 2011. A mobilization fee of \$2,520,000 was paid during the year ended December 31, 2006. The fee will be charged to income upon commencement of commercial production of the ore body.

10. COMMITMENTS

The Company is obligated under the terms of an operating lease for minimum annual property 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 three 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, which brought the assets into initial production in December 2007, cost \$175 million (exclusive of interest and other costs capitalized prior to commencement of commercial production). Phases II, III and IV are estimated to be \$136 million, \$124 million and \$64 million (excluding capitalized interest and other costs), respectively. Each of these last three phases is expected to last one year beginning in January 2008. The Company 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.

As a result of the acquisition of Nikanor (see Note 14) a revised feasibility report is being prepared that takes into account the requirements of the combined companies and it is expected that this will significantly impact the amount and timing of the capital expenditures referred to above.

The Company has entered into a marketing agreement with LN Metals International Ltd that entitles it to a marketing fee for all of the copper and cobalt production in 2008. Glencore and the Company have signed an off-take agreement whereby, commencing January 1, 2009, all copper and cobalt produced will be sold to Glencore based on market terms.

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11. INCOME TAXES

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statements of operations for the years ended December 31, 2007 and 2006:

	2007	2006
Loss before income taxes reflected in the statements of operations	\$ (48,282,818)	\$ (4,622,756)
Expected income tax recovery at Canadian statutory rates	\$ 15,508,441	\$ 1,577,285
Effect of differences in foreign tax rates	3,707,112	13,525
Effect of change in temporary differences not recognized	(7,636,492)	326,496
Permanent differences	(6,556,028)	(590,367)
Adjustment in respect of prior years	(19,287)	-
Current year losses not recognized	(4,574,796)	(1,425,419)
Recovery of (provision for) income taxes	\$ 428,950	\$ (98,480)

The following table reflects the future income tax assets at December 31, 2007 and 2006:

	2007	2006
Future Income Tax Assets		
Non-capital losses carried forward	\$ 4,126,811	\$ 1,443,392
Other temporary differences	9,107,344	(5,789)
	13,234,155	1,437,603
Less : Valuation allowance	(12,633,365)	(1,437,603)
Net future income tax asset	\$ 600,790	\$ -

The net future income tax asset of \$600,790 represents United Kingdom tax relief on RSU costs that arises when the RSUs vest. The Company has recorded a valuation allowance in respect of non-capital losses and other tax assets in the amount of \$12,633,365 as at December 31, 2007 (December 31, 2006 - \$1,437,603) as it is not considered to be more likely than not that the benefit associated with these losses and other tax assets will be realized prior to their expiry.

The acquisition of Nikanor (see Note 14) is not anticipated to materially impact the future income tax asset position in countries that the Company operates in other than Canada. Under current Canadian income tax legislation, the Company's Canadian future tax assets that arose from previously reported capital loss carry forwards expired upon the completion of the transaction. Non capital losses carried forward do not expire, but utilisation is restricted to offset against future profits from the business which generated the loss.

As at December 31, 2007, the Company had non-capital losses available for future use, expiring as follows:

2008	\$ 72,127
2009	64,280
2010	75,488
2013 and thereafter	16,324,058
	<u>\$16,535,953</u>

The accompanying notes constitute an integral part of these consolidated financial statements

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12. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development and has assets and operations in Canada, the United Kingdom and the DRC, as described below:

As at December 31, 2007

	Canada	United Kingdom	Democratic Republic of Congo	Total
Cash and cash equivalents	\$ 9,905,074	\$ 89,680,220	\$ 1,128,356	\$ 100,713,650
Other assets	19,755,268	5,477,443	322,875,740	348,108,451
Total Assets	\$ 29,660,342	\$ 95,157,663	\$ 324,004,096	\$ 448,822,101

For the Year Ended December 31, 2007

Net income (loss)	\$(61,282,021)	\$ 14,128,153	\$ (700,000)	\$(47,853,868)
Interest income	\$ 4,711,633	\$ -	\$ -	\$ 4,711,633
Debenture interest	\$(18,996,049)	\$ -	\$ -	\$(18,996,049)
Recovery of income taxes	\$ -	\$ 428,950	\$ -	\$ 428,950

As at 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

For the Year Ended December 31, 2006

Net loss	\$ (4,221,768)	\$ (499,468)	\$ -	\$ (4,721,236)
Interest income	\$ 2,934,638	\$ -	\$ -	\$ 2,934,638
Debenture interest	\$ (1,551,868)	\$ -	\$ -	\$ (1,551,868)
Provision for income taxes	\$ -	\$ (98,480)	\$ -	\$ (98,480)

The accompanying notes constitute an integral part of these consolidated financial statements

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13. FINANCIAL INSTRUMENTS

At December 31, 2007 and 2006, the Company's financial instruments consisted of cash and cash equivalents, prepaid expenses and other sundry assets, accounts payable and accrued liabilities and long-term debt. The Company estimates that the fair value of these financial instruments approximate the carrying values at December 31, 2007 and 2006.

14. SUBSEQUENT EVENTS

Acquisition of Nikanor PLC

In January 2008, the Company acquired Nikanor Plc as explained in Note 15.

Contract Review

On February 11, 2008, KCC received a letter from the Minister of Mines for the DRC notifying KCC of the DRC Government's position as a consequence of the review by the DRC Government of the mining rights which KCC hold.

The letter from the Minister included a statement of terms upon which the Government proposes discussions be based upon to balance the partnership between the DRC and KCC. KCC has formally responded to the Minister of Mines and is seeking further discussions with the Minister of Mines.

The mining concession on which the Company is currently operating and developing is located in the DRC. As a result the Company is subject to certain risks, including possible political or economic instability in the DRC, which may result in the impairment, loss of the mineral concession or renegotiation of the joint venture contract with Gécamines. Any changes in laws or regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. In relation to the DRC Commission appointed by the DRC Government to review mining agreements the Company expects there to be no material adverse affect but no assurance can be given as to the outcome of any future discussions or negotiations between KCC and the DRC Government or that KCC's security of tenure and ability to secure additional financing in the future may not be adversely affected so as to have a material adverse effect on its business, operating results and financial position.

Mashamba West and Dikuluwe Deposits

On February 8, 2008, the Company announced that Gécamines and KCC have signed an agreement that sets out compensation, security and payment in exchange for the release to Gécamines of the portion of the KCC concession that represents the Mashamba West and Dikuluwe deposits. These deposits were not scheduled to start producing oxide ores until 2020 and 2023, respectively.

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14. SUBSEQUENT EVENTS (Continued)

The agreement provides for Gécamines to replace these deposits by July 1, 2015 with other deposits having a total tonnage of 3,992,185 tonnes of copper and 205,629 tonnes of cobalt according to Canadian Securities Administration rules (National Instrument 43-101), or pay over time, beginning July 1, 2012, a total of \$825 million from Gécamines' entitlement to royalties and dividends from KCC. The parties have agreed to fix the equivalent value of the deposits released by reference to a feasibility study prepared in 2006. The agreement set this amount at \$825 million, subject to a joint review by the parties. At July 1, 2012, the parties will calculate the proportion of the reserves replaced by Gécamines at that date. Dividends and royalties payable to Gécamines by KCC from this date will be paid into an escrow account to secure future payments by Gécamines. As at July 1, 2015, the parties shall recalculate the amount of reserves transferred to KCC. In the event Gécamines has not completely replaced the deposits, the balance of the amount due shall be paid in cash. Any cash thus remaining due shall be paid to KCC using the funds in the escrow account, and any remaining payments due will be met from Gécamines' future revenues from KCC, until full payment has been made.

To assist Gécamines in finding replacement deposits, KCC and Gécamines shall conduct jointly managed exploration to be funded initially by KCC and reimbursed by Gécamines out of its revenues from KCC.

In addition to the agreement reached with Gécamines above, the parties agreed to complete a definitive agreement by May 7, 2008 addressing transfer of the exploitation permits and mining rights over an agreed area, to encompass the approximate current concession area, from Gécamines to KCC.

In exchange for this transfer, which will result in KCC holding the assets directly, KCC will pay to Gécamines as compensation \$35 per tonne of remaining copper reserves identified in the feasibility study. This amount, which is approximately \$135 million, will be paid over time on a basis to be agreed in the definitive agreement and will be based on the cash flows available to KCC. The agreement will also address various other matters relating to the joint venture, including the management of the exploration program.

15. Acquisition of Nikanor PLC

On January 11, 2008 the Company acquired 94.10% of the outstanding common shares of Nikanor. On February 29, 2008, the Company acquired the balance of the outstanding common shares of Nikanor through a statutory compulsory acquisition procedure.

The pro forma balance sheet information below is intended to give the reader of these consolidated financial statements an overview of the accounting treatment to be adopted for the acquisition of Nikanor and to show the impact of the transaction on the Company's financial position.

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15. Acquisition of Nikanor PLC (Continued)

The pro forma balance sheet of Katanga as at December 31, 2007 gives effect to the acquisition as if it had taken place as at December 31, 2007:

	Katanga Mining Limited	Nikanor PLC	Pro Forma Adjustments Unaudited \$000		Consolidated Unaudited \$000
	\$000	\$000			
ASSETS					
Current					
Cash and cash equivalents	100,714	852,808	(446,148)	(a)	507,374
Inventories	16,260	39,441	76,675	(b)	132,376
Other financial assets	-	122			122
Accounts receivable	-	18,342			18,342
Prepaid expenses and other current assets	11,539	133,193			144,732
	128,513	1,043,906	(369,473)		802,946
Property, plant and equipment	298,262	171,142	1,212,131	(b)	2,229,846
			519,485	(c)	
			28,826	(d)	
Other financial assets	-	173			173
Mobilisation charge	2,520	-			2,520
Future income tax assets	601	905			1,506
Deferred acquisition costs	18,926	-	(18,926)	(d)	-
	448,822	1,216,126	1,372,043		3,036,991
LIABILITIES					
Current					
Accounts payable and accrued liabilities	43,450	43,881			87,331
Restricted stock units	5,291	-			5,291
Accrued acquisition costs	18,404	-	9,900	(d)	28,304
	67,145	43,881	9,900		120,926
Future income tax liability	-	-	519,485	(c)	519,485
Asset retirement obligation	-	2,410			2,410
Derivative financial instruments	-	3,235			3,235
Convertible debt	149,518	-			149,518
Debentures payable	118,012	-			118,012
	334,675	49,526	529,385		913,586
SHAREHOLDERS' EQUITY					
Capital stock	7,901	2,066	10,651	(b)	20,618
Warrants	5,809	-			5,809
Contributed surplus	150,424	1,189,158	(446,148)	(a)	2,146,965
			1,253,531	(b)	
Equity component of convertible debt	2,716	-			2,716
Deficit	(52,703)	(24,624)	24,624	(b)	(52,703)
	114,147	1,166,600	842,658		2,123,405
	448,822	1,216,126	1,372,043		3,036,991

The accompanying notes constitute an integral part of these consolidated financial statements

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15. Acquisition of Nikanor PLC (Continued)

Pro Forma adjustments:

- a) The payment of \$2.16 per share, (\$446,148,000) in cash to each Nikanor shareholder.
- b) The issue by the Company of 0.613 new common shares for each Nikanor share outstanding. This resulted in the issuance of 127,168,221 common shares of the Company with an aggregate fair value of \$2,009,258,000. The value ascribed to each Katanga share was determined using the average quoted market value of the Katanga shares two days before and two days after the announcement of the transaction (\$15.80).

The fair value of the assets purchased from Nikanor is estimated at December 31, 2007 to be:

Asset/Liability	Fair Value \$'000 (1)
Cash and cash equivalents (after the distribution in a))	406,660
Inventories (after fair value increase from book value of \$76,675)	116,116
Accounts receivable	18,342
Prepaid expenses and other current assets	133,193
Property, plant and equipment: other	171,142
Property, plant and equipment: KOV other	1,731,616
Future income tax asset	905
Future income tax liability	(519,485)
Accounts payable and accrued liabilities	(43,881)
Asset retirement obligation	(2,410)
Net derivative instruments	(2,940)
Total	2,009,258

- (1) For purposes of the allocation of the purchase consideration to the Nikanor assets and liabilities acquired, the fair value of all assets and liabilities other than property, plant and equipment, finished goods inventory and the future income tax liability was considered to be equal to their respective book values.

These are preliminary estimates of the fair value and will likely differ from the final allocation and the differences may be material. The Company will finalise the fair value allocation within 12 months of the closing of the transaction.

KATANGA MINING LIMITED
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS)

Years Ended December 31, 2007 and 2006

15. Acquisition of Nikanor PLC (Continued)

The effect of the pro forma adjustments on the pro forma balance sheet can be summarised as follows:

	Effect on net assets \$000	Effect on shareholders' equity \$000
Cash distribution ^B	(446,148)	(446,148)
Increase in share capital due to share issue ^A		12,717
Increase in contributed surplus ^B		1,996,541
Fair value attributable to KOV (net of tax)	1,212,131	
Fair value increase in Nikanor concentrate inventories	76,675	
Elimination of Nikanor share capital ^A		(2,066)
Elimination of Nikanor contributed surplus ^B		(743,010)
Elimination of Nikanor deficit		24,624
Total	842,658	842,658

A. Net impact on share capital is \$10,651,000

B. Net impact on contributed surplus is \$807,383,000

- c) The emerging issues committee issued abstract - EIC-110 "Accounting for acquired future tax benefits in certain purchase transactions that are not business combinations". To comply with this guidance, the Company has accounted for the future income tax liability on the difference between the fair value of the KOV open pit and its basis for tax purposes.
- d) The Company has estimated that the costs associated with the acquisition will be approximately \$28,826,000. Of this amount, \$18,926,000 was shown as deferred acquisition costs on the balance sheet of Katanga at December 31, 2007. Further costs of approximately \$9,900,000 were incurred subsequent to December 31, 2007. These costs comprise incremental third party costs directly related to the acquisition of Nikanor which upon closing will be included in the purchase price allocated to the net assets acquired.