

KATANGA MINING LIMITED

December 31, 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 2007 audited consolidated financial statements. The consolidated 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 March 20, 2008. 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. Company Overview

Katanga is incorporated under the laws of Bermuda and is engaged in the acquisition and development of mineral properties.

In 2004 Kinross Forrest Limited ("KFL") (which later became a subsidiary of the Company) entered into a joint venture with La Generale des Carrieres et des Mines ("Gécamines") and set up a project company called Kamoto Copper Company SARL ("KCC") (75% KFL and 25% Gécamines). Katanga, through 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.

In January 2008, the Company completed the acquisition of Nikanor Plc ("Nikanor"). Nikanor has 75% ownership of a project company called DRC Copper and Cobalt Project S.A.R.L. ("DCP") with the other 25% held by Gécamines. DCP's 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 Democratic Republic of Congo, owned by Katanga and Nikanor, which were previously part of the same complex, to create a major single-site copper and cobalt operation.

2. Highlights and Outlook

Highlights for 2007 and the start of 2008

- Construction team build up began onsite in January 2007 and the last of the major infrastructure contracts were awarded.
- An updated reserves and resources statement was released in February 2007. 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%.
- The underground mine became operational and blasting began on March 21, 2007.
- Concentrator commissioning began on schedule in mid-July. In total, one sulphide and one oxide mill and 88 flotation cells were operational in phase one.
- The seven kilometer concentrate delivery pipeline to the metallurgical plant was completed in July.
- The Company has entered into a marketing agreement with LN Metals International Ltd (“LN”) that entitles it to a marketing fee for all copper and cobalt production in 2008.
- Glencore International AG (“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.
- Extensive improvements were implemented to health and safety standards and operating procedures.
- Community Development activities that commenced in the year for the local area include agriculture, enterprise creation, health, sanitation and infrastructure programs.
- Arthur Ditto was 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 was extracted.
- In July 2007, 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.
- A US\$150 million two-year convertible debt facility was arranged with Glencore on November 5, 2007.

- A special meeting of shareholders held on November 2 approved an increase in Katanga's share capital to provide the Company with the flexibility for future equity financings or acquisitions.
- On November 6, 2007 Katanga announced the acquisition of Nikanor, which has an adjacent copper-cobalt concession in the DRC. The acquisition was completed on January 11, 2008 and the consideration for the Nikanor shares comprised of 0.613 new common shares of the Company and \$2.16 in the form of a cash return to each Nikanor shareholder from Nikanor's existing cash resources.
- Cold commissioning at the Luilu Metallurgical Plant began in late November and the first starter sheets were stripped on December 17. The first commercial copper cathodes were produced on December 22, 2007 and shipped in January 2008.
- On February 8, 2008, the Company announced that Gécamines and Kamoto Copper Company 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. The agreement provides that the deposits either be replaced or that the Company is fairly compensated for their economic value. These deposits were not scheduled to start producing oxide ores until 2020 and 2023, respectively.

Outlook

- Production for 2008 is forecast to be 30,500 tonnes of copper cathode and 1,600 tonnes of cobalt metal, generating Katanga's first operational cash flow.
- Kamoto's Phase II rehabilitation is commencing as planned and the Company is reviewing the possibility of accelerating later phases. A further mill and additional 58 flotation cells will be refurbished in the Kamoto Concentrator. In the Luilu Metallurgical Plant, leaching and electro-winning capacity will be doubled and a new roaster will be constructed.
- In parallel with the Phase II rehabilitation, Katanga will develop the KOV open pit and build a whole-ore leach and SX/EW facility. Construction of the acid plant and the first of two 80 thousand tonne per year modules of the SX/EW facility will begin during 2008.
- Completion of the feasibility study on the enlarged project due to the acquisition of Nikanor is expected by the end of September 2008.
- A full integration of the Nikanor assets is expected to be completed during 2008. A four year phased ramp-up is planned with a forecast production of over 300,000 tonnes of refined copper and over 30,000 tonnes of refined cobalt by 2011.
- The acquisition will bring together the adjacent properties in the DRC owned by Katanga and Nikanor, which were previously part of the same Mine Complex, to create a major single-site copper and cobalt operation.

- Additional funding requirements as part of the feasibility study will be calculated and terms agreed with a group of lenders for a debt facility for drawdown in the first half of 2009.
- We will continue to evolve a culture of safety and respect for the environment throughout the Company's operations to ensure consistent performance at the level expected of world-class operators.
- Continued expansion of the skills and operational knowledge of the work force is seen as a major challenge going forward. Nearly 200,000 hours of training were carried out in 2007. The proposed restart in 2008 of the Mutoshi Institute, a former training school for mine workers, will play an important role in meeting future training needs.

3. Selected Annual Financial Information

	2007	2006	2005
Year ended December 31,			
Interest income	\$4,711,633	\$2,934,638	\$269
Other administrative expenses	\$10,457,132	\$5,283,495	\$6,961
Stock-based compensation	\$5,171,296	\$1,622,852	\$nil
Foreign exchange loss (gain)	\$18,369,974	\$(900,821)	\$nil
Interest expense	\$18,996,049	\$1,551,868	\$nil
Net loss	\$47,853,868	\$4,721,236	\$6,692
Loss per share	\$0.61	\$0.08	\$nil
As at December 31,			
Cash and cash equivalents	\$100,713,650	\$196,985,623	\$944,737
Current assets	\$128,513,138	\$201,688,958	\$945,599
Mineral interests and other assets	\$320,308,963	\$48,390,822	\$2,643,932
Total assets	\$448,822,101	\$250,079,780	\$3,589,531
Current liabilities	\$67,144,833	\$9,648,929	\$1,088,584
Long-term debt	\$267,529,994	\$93,496,963	\$nil
Total liabilities	\$334,674,827	\$103,145,892	\$1,088,584
Shareholders' equity	\$114,147,274	\$146,933,888	\$2,500,947

Results of the operations for the years ended 2007 and 2006

- The net loss for the year 2007 was \$47,853,868 (2006 - \$4,721,236) and represents the losses incurred in completing phase I of the feasibility study. Work on phase I commenced in the third quarter of 2006 before which the Company had no material operating costs as expenditure related to the feasibility study costs only.
- Interest Income was earned on non-utilized funds.
- The expenses for 2007 totaled \$33,998,402 (2006 - \$6,005,526). These included:
 - general administrative expenses of \$10,457,132 (2006 - \$5,283,495) representing the costs to maintain the head office function in London and maintain the Company's TSX listing in Canada;
 - stock-based compensation of \$5,171,296 (2006 - \$1,622,852); and
 - foreign exchange losses of \$18,369,974 (2006 – gain of \$900,821) of which \$19,964,100 (2006 - \$nil) were unrealised losses created by the translation into US\$ of the CDN\$ denominated debentures. Any unrealised losses or gains on the debentures will be realized on their maturity on November 30, 2013.
- The interest expense in 2007 related wholly to the debentures payable and totaled \$18,996,049. The interest on the convertible debt is being capitalized and will not be charged to operations until commercial production commences in 2008.

4. Selected Quarterly Information

Fiscal 2007

	As at and for the Three Months Ended			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Three Months Ended				
Interest income	\$98,449	\$736,466	\$1,574,883	\$2,301,836
Administrative expenses	\$7,828,541	\$10,909,914	\$11,401,683	\$3,858,265
Interest expense	\$4,950,630	\$6,140,937	\$4,085,434	\$3,819,048
Net loss	\$12,035,475	\$16,391,456	\$13,991,498	\$5,435,439
Loss per share	\$0.15	\$0.21	\$0.18	\$0.07
As at				
Cash and cash equivalents	\$100,713,650	\$37,868,422	\$100,618,724	\$166,040,849
Current assets	\$128,513,138	\$54,295,480	\$110,758,993	\$170,688,044
Mineral interests and other assets	\$320,308,963	\$223,198,315	\$143,904,867	\$78,344,826
Total assets	\$448,822,101	\$277,493,795	\$254,663,860	\$249,032,870
Current liabilities	\$67,144,833	\$39,811,417	\$16,457,561	\$12,131,031
Long-term debt	\$267,529,994	\$116,347,157	\$107,953,162	\$94,219,118
Total liabilities	\$346,674,827	\$156,158,574	\$124,410,723	\$106,350,149
Shareholders' equity	\$114,147,274	\$121,335,221	\$130,253,137	\$142,682,721

Fiscal 2006

	As at and for the Three Months Ended			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Three Months Ended				
Interest income	\$2,046,612	\$888,026	\$ nil	\$ nil
Administrative expenses	\$2,468,275	\$3,537,251	\$ nil	\$ nil
Interest expense	\$1,551,868	\$ nil	\$ nil	\$ nil
Net loss	\$2,072,011	\$2,649,225	\$ nil	\$ nil
Loss per share	\$0.02	\$0.03	\$ nil	\$ nil
As at				
Cash and cash equivalents	\$196,985,623	\$122,729,429	\$131,463,901	\$423,560
Current assets	\$201,688,958	\$126,164,641	\$131,565,963	\$424,422
Mineral interests and other assets	\$48,390,822	\$18,959,585	\$12,200,954	\$4,803,239
Total assets	\$250,079,780	\$145,124,226	\$143,766,917	\$5,227,661
Current liabilities	\$9,648,929	\$3,978,148	\$2,093,417	\$895,600
Debentures payable	\$93,496,963	\$ nil	\$ nil	\$ nil
Total liabilities	\$103,145,892	\$3,978,148	\$2,093,417	\$895,600
Shareholders' equity	\$146,933,888	\$141,146,078	\$141,673,500	\$4,332,061

Three months ended December 31, 2007 and 2006

- In the fourth quarter ended December 31, 2006 implementation of Phase I of the feasibility commenced. 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 December 31, 2007 as activity has increased considerably.
- Expenses for the three months ended December 31, 2007 were \$7,828,541 (2006 - \$2,468,275). These included:
 - exchange losses incurred of \$2,028,840 (2006 - gain of \$231,062) 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 \$1,825,181;
 - stock-based compensation for the three months ended December 31, 2007 of \$552,821 was lower for the quarter as the share price decreased in the fourth quarter (CND \$1.36) which resulted in a reduction of \$375,448 in the recorded fair value of the Restricted Stock Units (RSU's). The RSU's are valued using the Company's quoted share price;
 - professional fees for the quarter were \$936,341 an increase from previous quarters due to the expenses incurred in defending the Company from the uninvited take-over approach from CAMEC PLC.
- All of the interest expense relates to the debentures payable and totaled \$4,950,630 (2006 - \$1,551,868) for the quarter. The debenture was issued in November 2006.
- Interest income of \$98,449 was earned in the three months ended December 31, 2007 (2006 - \$2,046,612) on the cash balances not yet spent on the rehabilitation of the Kamoto Joint Venture Assets. The majority of the interest income earned in the fourth quarter of 2007 was offset against mineral interests as the cash was held by KCC the operating company which has not yet commenced commercial operations. In 2006, the cash was held by Katanga Mining Limited.
- The above resulted in a net loss for the quarter ended December 31, 2007 of \$12,035,475 after income taxes (2006 - \$2,072,011).

Quarterly Trends

The focus of the Company has been the development of the mine site and therefore the most notable trend has been the increase in expenditures incurred on mineral interests. Expenditures commenced in the quarter ended March 31, 2006 and totaled \$4,803,239. The corresponding expenditures capitalized in the quarter ended December 31, 2007 were \$97,110,648.

5. Cash Flows

Cash Flows from:	Three Months Ended		Year Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Operating activities	\$(13,784,929)	\$(196,915)	\$(23,852,124)	\$(1,117,964)
Financing activities	\$150,000,000	\$96,390,902	\$156,239,114	\$229,858,546
Investing Activities	\$(72,821,727)	\$(22,168,019)	\$(228,406,149)	\$(32,929,922)

2007 and 2006

- The net operating cash costs for the year ended 2007 were \$23,852,124 (2006 – \$1,117,964). The majority of the operating expenses were non-cash (as noted in the selected annual financial information). \$16,083,730 of operating cash used relates to the build-up of inventory (2006 - \$176,583). The remainder relates to the cash costs of head office offset by a realized foreign exchange gain of \$1,594,126 (2006 - \$670,595).
- 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. On November 20, 2006 the Company received net proceeds of \$94,524,416 upon the issuance of 115,000 unsecured subordinated notes and common share purchase warrants. The additional source of funds in financing activities in 2006 relates to the exercise of warrants and \$3,708,675 in capital contributions which were used to fund the feasibility study.
- In 2007, \$1,210,624 was received upon the exercise of 216,677 options and \$5,028,490 upon the exercise of 633,600 warrants. \$150,000,000 was received from Glencore upon issuance of convertible debt.
- The investing activities for 2006 and 2007 relate mainly to the completion of phase I of the rehabilitation of the site in preparation for commercial production in 2008.

Three months ended December 31, 2007 and 2006

- For the three months ended December 31, 2007, non-cash items in operating expenses included unrealized foreign exchange losses on the debentures of \$1,825,181 (2006 - \$nil) and \$3,772,208 (2006 - \$ 1,551,868) for debenture interest which was paid in January 2008.
- For the three months ended December 31, 2007, inventory (in operating activities) increased by \$5,883,566 (2006 - \$176,583) as a result of the build-up of spares in preparation for commercial production in 2008.
- The remainder of the cash expenditures in operating activities relates to head office expenditures.
- The financing activities in the three months ended December 31, 2007 relate to the issuance of convertible debt to Glencore. The amount for the three months ended December 31, 2006 relates to the issuance of the unsecured subordinated notes and associated warrants.
- Investing activities in the three months ended December 31, 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 neared production.

6. Discussion of Financial Position and Liquidity

	December 31, 2007	December 31, 2006
	\$	\$
Assets		
Cash and cash equivalents	100,713,650	196,985,623
Other current assets	27,799,488	4,703,335
Property, plant and equipment	298,262,527	41,847,436
Other non-current assets	22,046,436	6,543,386
	<u>448,822,101</u>	<u>250,079,780</u>
Liabilities		
Current liabilities	67,144,833	9,648,929
Convertible debt	149,517,502	-
Debentures payable	118,012,492	93,496,963
	<u>334,674,827</u>	<u>103,145,892</u>
Shareholders' equity	<u>114,147,274</u>	<u>146,933,888</u>

Cash and Cash Equivalents / Liquidity

Cash and cash equivalents decreased by \$96,271,973 during the year ended December 31, 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 expected completion of the Phase I capital program reduced the Company's cash resources during the fourth quarter of 2007 and as a result the Company raised \$150,000,000 from Glencore in the form of a convertible debt obligation.

Other Current Assets

The increase in other current assets totaled \$23,096,153 during 2007 of which \$16,083,730 can be attributed to the build-up of inventory of spares in preparation for commercial production. The remaining increase is due to the amount prepaid, mainly to suppliers, for goods and services yet to be supplied to site as most suppliers require some form of payment in advance for the supply of goods to the DRC.

Other Non-current Assets

Other non-current assets increased by \$15,503,050 primarily as a result of the Nikanor acquisition costs (\$18,925,646) offset by the change in accounting policy for the deferral of financing costs (\$4,023,386).

Property, Plant and Equipment

The increase in property, plant and equipment during the year ended December 31, 2007 of \$256,415,091 is primarily related to additions to the Kamoto Joint Venture Assets (investing

activities) and the acquisition of property, plant and equipment to support the operation. Commercial production is expected to commence in the second quarter of 2008.

Current Liabilities

The increase in current liabilities of \$57,495,904 during the year ended December 31, 2007, is due to an increase in creditors at the mine-site, an accrual of \$18,403,541 for the acquisition costs of Nikanor and the accrual of debenture interest which is no longer being added to the principal balance outstanding as of July 1, 2007, and is now being accrued for under current liabilities of \$8,766,213 (the interest accrued from July 1, 2007, to December 31, 2007, was paid in January 2008).

Debentures Payable

The increase in debentures payable of \$24,515,529 during the year comprises interest added to the principal outstanding prior to July 1, 2007 of \$8,331,681, transition adjustments for new accounting standards for deferred financing costs of \$(3,915,708) and unrealized foreign exchange translation losses of \$20,099,556.

Convertible Debt

On November 5, 2007, the Company's subsidiary KCC finalized a loan facility with 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.

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.

The convertible debt facility 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.

Off-Balance Sheet Arrangements

As at December 31, 2007, the Company had no off-balance sheet arrangements.

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 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, 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 that entitles it to a marketing fee for all of the copper and cobalt production in 2008. Whereby, commencing January 1, 2009, Glencore and the Company have signed an off-take agreement under which all copper and cobalt produced will be sold to Glencore based on market terms.

The following table summarizes the Company's contractual and other obligations, as at December 31, 2007.

<i>Payments due by period</i>	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(\$ million)				
Property operating lease	3.9	1.0	2.9	-	-
Redevelopment expenditure commitments	37.0	37.0	-	-	-
Debentures payable (1)	228.5	16.8	48.3	32.2	131.2
Long-term debt (1)	174.9	-	174.9	-	-

(1) The total payable includes all interest costs to the date of repayment.

8. Changes in Accounting Policies

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. 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.

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.

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 October 1, 2007. 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.

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, the fair value of the Glencore convertible debt, the residual value of the equity portion of the Glencore convertible debt, 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	35,001,500
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Balance – December 31, 2006	78,037,476
Exercise of options	216,667
Exercise of warrants	633,600
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Balance – December 31, 2007	78,887,743
Performance shares issued to former Nikanor employees	33,189
Shares issued to acquire Nikanor	127,168,221
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Balance –March 20, 2007	206,089,153

The Company has a Stock Option Plan which is consistent with the policies of the Toronto Stock Exchange (the “TSX”).

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 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 for these services (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 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.

12. Health, Safety, Community and Environment

The Company recognises the critical importance of providing employees with a safe and healthy work environment. The Company is actively implementing policies, standards, training, audit protocols and health, safety and environmental (“HSE”) reporting system across its operation. 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 mid 2008, following further public consultation and stakeholder engagement. Environmental baseline data collection includes air, noise, surface water and groundwater measurements.

The Company actively supports community consultation and liaison through regular dialogue with surrounding communities. Feedback from this communication is continually integrated into the Company’s social and community development plans.

During 2007, a broad range of community development programs were completed covering medical and health, infrastructure, capacity building and education initiatives. Specific contributions included facility improvements to the local hospital and community clinic network in Kolwezi, restoration of the national road between Kanina and Kapata, rebuilding of a section of the road between Kolwezi and Nguba and the clearing of nearly 3,000 meters of clogged drains and ditches, thereby reducing health risks that are associated with standing water.

13. RECENT DEVELOPMENTS

Acquisition of Nikanor PLC

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

Consideration for the shares acquired comprised:

- a) The issue by the Company of 0.613 new common shares for each Nikanor share acquired (the “Offer”). This resulted in the issuance of 127,168,221 common shares 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 (CDN\$15.80); 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 was paid from Nikanor’s existing cash resources and totaled \$446,148,000.

The acquisition is being accounted for as an asset acquisition of the KOV high grade copper and cobalt body. Further information on the accounting treatment and the pro forma effects of the acquisition can be found in the Business Acquisition report that is filed on SEDAR.

Summary of Acquisition

- The acquisition will bring together the adjacent properties in the DRC owned by Katanga and Nikanor, which were previously part of the same mine complex, to create a major single-site operation.
- Substantial high-grade resources of both copper and cobalt will create an exceptional foundation for a large-scale, low-cost and long-life operation.
- Based on work completed to date, the Company intends to develop a unified mine complex with annual output in excess of 300,000 tonnes of copper and 30,000 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 acquisition 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 Company's infrastructure spend and corporate social responsibility activities will also be more effective in producing positive change for the communities surrounding the operations.
- The 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 on a standalone basis.

Contract Review

On February 11, 2008, KCC received a letter from the Minister of Mines of the DRC outlining a number of points that require further discussion as a consequence of the review by the DRC Government of the mining rights which both KCC and DCP hold.

The points to be addressed are: the submission of feasibility studies by the joint ventures; Gécamines' role in the management of the joint ventures; the submission of schedules of achievements for social projects; and the re-examination of royalty payments for lease facilities. In addition, with respect to DCP, the status of the plant lease and payments to Gécamines are to be clarified. Other documentation matters need to be addressed with respect to both joint venture contracts.

The Company has formally responded to the Minister of Mines and is in active discussions with the government of the DRC.

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.

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 US\$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 US\$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 from that in

escrow. 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 within the next 90 days 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 US\$35 per tonne of remaining copper reserves identified in the feasibility study. This amount, which is approximately US\$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.

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 December 31, 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.

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, DCP and the DRC Government or that KCC's and DCP'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.

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.