

KATANGA MINING LIMITED

March 31, 2008

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 May 9, 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 Mining Limited ("Katanga" or the "Company") is incorporated under the laws of Bermuda.

Katanga, through Kamoto Copper Company SARL ("KCC") and DRC Copper and Cobalt Project SARL ("DCP"), is engaged in copper and cobalt mining and related activities. KCC and DCP operate on adjacent properties in the Democratic Republic of Congo ("DRC") and are working to create a major single-site copper and cobalt operation.

KCC and DCP are engaged in the exploration, refurbishment and rehabilitation of the Kamoto/Dima mining complex (the "Kamoto Project") and the copper and cobalt mines of KOV and Tilwezembe, respectively in the DRC.

The Kamoto Project includes exploration and mining properties, the Kamoto concentrator, the Luilu metallurgical plant, the Kamoto underground mine and two oxide open pit resources in the Kolwezi district of the DRC.

DCP has assets at its disposal that include mining properties, a concentrator and various oxide open pit resources, the largest of which is the KOV pit. DCP is in commercial production with the sale of cobalt concentrate which is produced from ore from the Tilwezembe open pit oxide resource. The KOV pit which is the largest resource of DCP is not yet in commercial production. DCP has begun the development of an SX-EW refinery in order to process the KOV ore which is expected to begin production of both copper and cobalt in 2010.

2. Highlights and Outlook

Highlights for three months ended March 31, 2008

- Cold commissioning at the Luilu Metallurgical Plant began in late November and the first starter sheets were stripped on December 17, 2007. The first commercial copper cathodes were produced on December 22, 2007 and shipped in January 2008.
- 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.
- 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.
- 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.

Outlook

- Production for 2008 is forecast to be 33,500 tonnes of payable copper (30,500 tonnes of copper cathode and 3,000 tonnes of payable copper in concentrate) and 2,900 tonnes of payable cobalt (1,600 tonnes of cobalt metal and 1,300 tonnes of payable cobalt in concentrate), generating earnings and positive 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 review of the mining rights with the DRC Government.
- 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. Katanga is currently discussing with Gecamines definitive steps to merge DCP into KCC. 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.
- 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.
- A challenge for the business going forward is the skills and operational knowledge of the current work force and it seen as a priority to address this issue. As a result it is proposed to restart in 2008 the Mutoshi Institute, a training school for mine workers, which will play an important role in meeting the training needs of the workforce.

3. Selected Quarterly Information

	As at and for the Three Months Ended			
	March 31, 2008 \$000	December 31, 2007 \$000	September 30, 2007 \$000	June 30, 2007 \$000
Three Months Ended				
Interest income	7,059	98	736	1,575
Contribution from mining activities	(14,796)	-	-	-
Other expenses	15,473	7,829	10,910	11,403
Interest expense	4,721	4,951	6,141	4,085
Net derivative loss	4,373	-	-	-
Net loss	17,396	12,035	16,391	13,991
Loss per common share	\$0.10	\$0.15	\$0.21	\$0.18
As at				
Cash and cash equivalents	463,435	100,714	37,868	100,619
Current assets	612,131	128,513	54,295	110,759
Mineral interests and other assets	2,431,766	320,309	223,198	143,905
Total assets	3,043,897	448,822	277,493	254,664
Current liabilities	110,206	67,145	39,811	16,458
Long-term debt	266,394	267,530	116,347	107,953
Other long-term liabilities	554,491	-	-	-
Total liabilities	931,091	334,675	156,158	124,411
Shareholders' equity	2,112,806	114,147	121,335	130,253

	As at and for the Three Months Ended			
	March 31, 2007 \$000	December 31, 2006 \$000	September 30, 2006 \$000	June 30, 2006 \$000
Three Months Ended				
Interest income	2,302	2,047	888	-
Other expenses	3,858	2,468	3,537	-
Interest expense	3,819	1,552	-	-
Net loss	5,435	2,072	2,649	-
Loss per common share	\$0.07	\$0.02	\$0.03	-
As at				
Cash and cash equivalents	166,041	196,986	122,729	131,464
Current assets	170,688	201,689	126,164	131,566
Mineral interests and other assets	78,345	48,391	18,960	12,201
Total assets	249,033	250,080	145,124	143,767
Current liabilities	12,131	9,649	3,978	2,093
Debentures payable	94,219	93,497	-	-
Total liabilities	106,350	103,146	3,978	2,093
Shareholders' equity	142,683	146,934	141,146	141,674

4. Results of Operations

Three months ended March 31, 2008 and 2007

The Company reported a net loss for the three months ended March 31, 2008 of \$17.4 million, \$0.10 per share, compared with a net loss for the first quarter of 2007 of \$5.4 million, \$0.07 per share.

- Revenues of \$90.2 million were achieved on concentrate sales. This concentrate was initially recorded at fair value as part of the Nikanor acquisition. Accordingly direct operating costs include an incremental \$65.7 million previously assigned to the fair value of the concentrate ore sold. As a consequence of this, no profit margin was recognized on the sales recorded in the period. A negative contribution from mining activities of \$14.8 million relates to the DCP operations at Tilwezembe and the KZC concentrator.
- The KZC concentrator was shut down in the later half of January in order to perform safety and performance related improvements. It was restarted in April. Thus, for the majority of the first quarter of 2008 concentrate was not produced. However, mining at Tilwezembe continued (primarily moving waste) and represents most of the \$14.8 million loss.
- The other expenses for the first quarter of 2008 totaled \$15.5 million (first quarter of 2007 - \$3.9 million). These included:
 - General administrative expenses of \$6.7 million (first quarter of 2007 - \$1.7 million) representing the cost to maintain the corporate office function in London;
 - Stock-based compensation of \$2.4 million (first quarter of 2007 - \$0.9 million);
 - Foreign exchange loss of \$4.7 million (first quarter of 2007 - \$0.8 million), relates to unrealized losses on the translation of Rand and Sterling deposits acquired from Nikanor. This is net of a \$5.1 million unrealized gain created on the translation into US\$ of the CND\$ denominated debentures to US\$. Any unrealized gain or loss on the debentures will be realized on their maturity on November 30, 2013.
 - Exploration and pre-production costs of \$1.0 million relate to road refurbishment and drilling costs (Tilwezembe) incurred by DCP.
- The interest expense in both the first quarter of 2008 of \$4.7 million and 2007 of \$3.8 million relates to the public debentures outstanding. The increase is a result of the additional bonds issued on July 1, 2007 for the interest expense capitalized from the issue date, November 20, 2006, through June 30, 2007. Interest on the convertible debt is being capitalized to mineral interests and will not be charged to the statement of operations until commercial production commences in the second quarter of 2008.
- Interest income of \$7.1 million and \$2.3 million for each of the first quarters of 2008 and 2007, respectively, were earned on non-utilized funds during each of the quarters. The increase in the interest income earned during first quarter of 2008 is a result of additional amounts earned on cash acquired in the Nikanor acquisition.

5. Cash Flows

Cash Flows from:	Three Months Ended	
	March 31, 2008	March 31, 2007
Operating activities	\$10,885	\$(558)
Financing activities	-	-
Investing Activities	\$362,230	\$(30,479)

Three months ended March 31, 2008 and 2007

- For the three months ended March 31, 2008, cash provided on operating activities was \$10.9 million (2007 cash used - \$0.6 million). The variance between the quarters represents the increase in activity coupled with the acquisition of Nikanor and the associated increase in revenue and operating costs from cobalt concentrate sales. The cash provided from operating activities was primarily the result of :
 - The net loss for the period of \$17.4 million (2007 - \$5.4 million). Which included:-
 - Head office costs of \$6.7 million (2007 - \$1.7 million)
 - Operating costs at the KZC concentrator and Tilwezembe of \$14.8 million (2007 - \$nil)
 - Debenture interest of \$8.8 million was paid during the three months to March 31, 2008 (2006 - \$nil).
 - An unrealized foreign exchange loss of \$4.7 million (2007 - \$0.7 million).
 - An increase in trade receivables of \$22.5 million (2007 - \$nil) in relation to cobalt concentrate sales.
 - A net decrease in inventories of \$59.8 million, after taking into consideration the increase to the fair value of the concentrate inventory acquired from Nikanor, (2007 increase in inventories - \$0.4 million) as a result of the KZC concentrator being closed for a majority of the quarter and the significant level of sales of acquired concentrate. This decrease was partially offset by an increase in inventory of supplies in preparation for KCC commercial production later in 2008.
- Investing activities in the three months ended March 31, 2008 totaled \$362.2 million (2007 - \$30.5 million) and relate to:
 - Costs incurred on the completion of Phase I and the continuing costs of phase II and V of the rehabilitation project of \$93 million (2007 - \$30.5 million all in relation to phase I).
 - Net cash acquired on the acquisition of Nikanor, net of acquisition costs of \$455.4 million made up of:
 - Cash acquired \$911.2 million
 - Distribution to Nikanor shareholders \$(446.1) million
 - Acquisition costs \$(9.7) million
- There were no financing activities in the three months ended March 31, 2008 or 2007.

6. Discussion of Financial Position and Liquidity

	March 31,2008	December 31, 2007
	\$000	\$000
Assets		
Cash and cash equivalents	463,435	100,714
Other current assets	148,696	27,799
Property, plant and equipment	2,428,707	298,262
Other non-current assets	3,059	22,047
	3,043,897	448,822
Liabilities		
Current liabilities	110,206	67,145
Convertible debt	153,119	149,518
Debentures payable	113,275	118,012
Other long-term liabilities	554,491	-
	931,091	334,675
Shareholders' equity	2,112,806	114,147

Cash and Cash Equivalents / Liquidity

The cash balance rose to \$463.4 million from \$100.7 million primarily as a result of the net cash acquired from Nikanor.

Other Current Assets

Other current assets rose to \$148.7 million from \$27.8 million primarily because of the addition of assets from the Nikanor acquisition. These included concentrate inventory (at fair value of \$26.2 million), \$40.9 million of trade receivables from concentrate sales and \$14 million and \$23.8 million of DCP prepayments and inventory, (excluding concentrate).

Property, Plant and Equipment

Property, plant and equipment increased to \$2,428.7 million from \$298.3 million primarily due to the acquisition of Nikanor. The fair value of the KOV open pit was considered to be equal to the overall purchase price of \$2,009 million, less the fair value of the other net assets acquired, which included \$230.1 million of property plant and equipment, which gave a fair value of \$1,807.6 million, including a related liability for future income tax liability of \$567.8 million

Other Non-current Assets

Other non-current assets reduced by \$19.0 million. Deferred costs relating to the Nikanor acquisition at December 31, 2007 of \$18.9 million have been included in the costs of acquiring Nikanor in the current period, as noted below.

Current Liabilities

Current liabilities have increased by \$43.1 million to \$110.2 million. This is largely the result of the inclusion of Nikanor liabilities. These comprise creditors, \$28.7 million at the DCP operating level and \$6.5 million at the corporate level. In addition there is a current derivative liability of \$6.8 million. The overall derivative liability (\$8.3m inclusive of non-current portion noted below) is related to two DCP contracts which are denominated in neither U.S. dollars nor the functional currency of the home country of the contracting party. The accounting requirements are to mark these contracts to market for any change in the remaining U.S. dollar value of the contract.

Convertible Debt

Convertible debt has increased by \$3.6 million to \$153.1 million as a result of capitalized interest of \$3.3 million, plus accretion of the debt of \$0.3 million.

Debentures Payable

The decrease in debentures payable of \$4.7 million is primarily the result of a reduction in the liability (as a result of an unrealized foreign exchange gain) of \$5.1 million on the revaluation of the CDN dollar denominated debentures into US dollars. This was offset by accreted interest of \$0.4 million.

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.

Other long-term liabilities

Other long-term liabilities include \$550.5 million related to the future income taxes recorded for the future income tax liability on the difference between the fair value assigned to the KOV open pit and its tax basis at the expected tax rate of 30%, including merger and termination costs post acquisition capitalized through the purchase equation. Also included in other long-term liabilities are \$3.9 million at March 31, 2008 relating to an asset retirement obligation recorded on the acquisition of Nikanor of \$2.4 million and a long-term derivative payable of \$1.5 million, (see current liabilities above).

Off-Balance Sheet Arrangements

As at March 31, 2008, the Company had no off-balance sheet arrangements.

7. Contractual Obligations and Commitments

The Company is obligated under the terms of an operating lease for minimum annual property rental payments of \$1 million for a period of five years, commencing September 19, 2006, with an option to renew for a further five years.

The Company previously estimated its capital expenditures for the redevelopment of the Kamoto Project to be \$499 million (inclusive of costs already incurred) over the next thirty-three months ending December 31, 2010. As a result of the acquisition of Nikanor (see Note 2 to the Company's March 31, 2008 unaudited interim consolidated financial statements), 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. In the interim, phase V has been identified for the development of the KOV pit and the new DCP refinery and it is being conducted concurrently with the Kamoto Project.

As discussed, the combined project is currently being developed in five 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 being capitalized prior to commencement of commercial production). Phases II, III and IV relate to the original phases of the Kamoto Project. Phase II has commenced and is currently estimated to cost \$135 million of which \$73 million has been committed and \$23 million has been spent. Phases III and IV are estimated to cost in the order of \$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. Phase V is being reviewed as part of the review of the feasibility study.

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. Glencore and the Company have signed off-take agreements whereby, commencing January 1, 2009, all copper and cobalt produced will be sold to Glencore based on market terms.

8. Changes in Accounting Policies

Financial instruments and capital disclosures

The Canadian Institute of Chartered Accountants ("CICA") has issued the following accounting standards effective for fiscal years beginning on or after January 1, 2008: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863).

Handbook 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 Company has included disclosures recommended by the new Handbook section in Note 4 to these unaudited interim consolidated financial statements.

Handbook 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 has included disclosures recommended by the new Handbook section in Note 5 to these unaudited interim financial consolidated statements.

Inventories

Effective January 1, 2008, the CICA has issued accounting standard Section 3031, Inventories. This standard provides guidance on the method of determining the cost of the Company's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031, Inventories did not impact the Company's financial statements.

Future accounting changes

In February 2008, the CICA issued accounting standard Section 3064 "Goodwill and intangible assets", replacing accounting standard Section 3062 "Goodwill and other intangible assets" and accounting standard Section 3450 "Research and development costs". The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standard for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section.

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 the assets and liabilities used to account for the acquisition of Nikanor, 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 beyond 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. The cost of acquisition of Nikanor was allocated to the net assets acquired based on fair values. The carrying values of these assets 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 carrying 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 31, 2008	206,089,153
Performance shares issued to former Nikanor employees	140,134
Shares issued as termination payment	49,476
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Balance – May 9, 2008	<u>206,278,763</u>

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

Pursuant to the rollover offer made available to holders of Nikanor options and awards under the terms of the Nikanor acquisition, the Company also issued options as part of the Nikanor acquisition to former Nikanor option holders who participated in the option plan operated by Nikanor. Under Nikanor's option plan the Company granted 928,234 options with an exercise price of \$16.10.

Also pursuant to the offer made for the acquisition of Nikanor, it was agreed that the shares to be awarded as part of Nikanor's performance award plan (which is now cancelled) would be granted by the Company. As a result, the Company granted 241,176 options to former Nikanor employees, with an exercise price of \$ nil.

11. Other Information

Material Transactions

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

Use of Financial Instruments

The principal financial instrument affecting Katanga's financial condition and results of operation is currently its cash and cash equivalents, convertible debt and the debentures payable.

The Company has not entered into any specialized financial agreements to minimize its investment risk or commodity risk. With regards to currency risk, the Company has acquired three foreign exchange derivatives at fair value as a result of the Nikanor acquisition:

a) Chinese Renminbi derivative

The Company has entered into a contract which is denominated in Chinese renminbi. As it was not possible to hold sufficient quantities of renminbi to hedge the exposure, the Company entered into a non deliverable forward to sell \$34.4 million in exchange for 245 million renminbi on various dates in line with the contract payment dates.

This contract has been fair valued and recorded as a foreign currency forward contract. During the three months ended March 31, 2008, a gain of \$741,000 was recognized as a result of the US dollar weakening against the Renminbi.

b) Embedded derivatives in capital contracts

The Company has entered into a number of contracts to purchase equipment which the Company has determined meets the definition of an embedded foreign currency derivative as the economic risks and characteristics of the host contract are not closely related to the embedded derivative, (being the forward US\$ to other foreign currencies). The Company has two such contracts, denominated in EURO and Japanese YEN. The change in the fair value of these derivatives for the period resulted in a loss of \$5.1 million. The loss is principally a result of the dollar weakening against the EURO and YEN.

Related Party Transactions

Related parties and related party transaction 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. 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.

Enterprise Generale Malta Forrest SPRL (“EGMF”), a company owned by George Forrest and which has Malta Forrest as a Director, both of whom have a beneficial interest in the Company, was involved in the sourcing and provision of goods and services (including construction and other resources), mining of one of the open pit ore bodies and the construction of a tailings dam.

Malta Forrest, who is a Director and has a beneficial interest in the Company provides consultancy on corporate affairs in the DRC.

Bateman Engineering N.V (“Bateman”), a company in the BSG Resources group who through Oakey Investment Holdings is a major shareholder in the Company. Bateman is engaged in the rehabilitation of KOV and the Kamoto Project.

DEM Mining (“DEM”), Dan Gertler holds an interest in the shares in DEM and has a beneficial interest in the Company. DEM have been contracted to drill, mine and transport ore from the Tilwezembe mine to the crusher at the KZC plant. BSG Resources also holds an interest in DEM.

La Générale des Carrières et des Mines (“Gécamines”), a state owned and operated mining enterprise of the DRC has a 25% minority interest in DCP and KCC. Both DCP and KCC are required to make royalty payments to Gécamines. In addition, DCP purchases goods and services from Gécamines in the normal course of business.

Glencore, is a major shareholder and represented on the Board of the Company. Glencore entered into a 100% off-take agreement for concentrate sales with the Company and, commencing January 1, 2009, pursuant to additional off-take agreements all copper and cobalt metal produced will also be sold to Glencore on market terms. Glencore also has provided funding to the Company in the form of convertible debt.

Transactions

The following table provides that total amount of the transactions entered into with these related parties:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Purchases from related parties		
KOL	\$ 2,262	\$ 856
EGMF	6,112	466
Malta Forrest	90	-
Bateman	3,156	-
DEM	9,361	-
Gécamines	1,670	-
Sales to related parties		
Glencore	69,459	-
	As at March 31, 2008	As at December 31, 2007
Amounts owed to related parties		
KOL	\$ 2,372	\$ 2,448
EGMF	2,205	3,410
Bateman	1,800	-
DEM	3,833	-
Glencore (convertible debt)	153,119	149,518
Amounts owed by related parties		
Glencore	32,174	-

12. Health, Safety, Community and Environment

The Company recognizes the critical importance of providing employees with a safe and healthy work environment. The Company is actively implementing policies, standards, training, audit protocols and a 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 a 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.

13. Contract Review and Mashamba West and Dikuluwe Deposits

Contract Review

On February 11, 2008, the Company received letters from the Minister of Mines for the DRC notifying DCP and KCC of the DRC Government's position as a consequence of the review by the DRC Government of the mining rights which DCP and KCC hold. The letters from the Minister included a statement of terms upon which the Government proposes discussions be based upon to balance the partnerships between the DRC and DCP and KCC. DCP and KCC have formally responded to the Minister of Mines.

The mining concessions on which the Company is currently operating and developing are 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. However no assurance can be given as to the outcome of any future discussions or negotiations between DCP, KCC and the DRC Government or that either DCP's or 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.

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 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. Active discussions continue with Gécamines to finalize the definitive agreement.

14. 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 March 31, 2008 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.

15. 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 Company's risk exposures which could impact on the Company's consolidated financial statements are summarized below:

Credit risk

The Company's credit risk in this period is primarily attributable to copper and concentrate sales. The Company has a concentration of credit risk primarily with one customer for concentrate sales which is closely monitored by management.

The majority of the Company's cash and cash equivalents are on deposit with banks or money markets with a Standard and Poors rating of A or greater in line with the Company's treasury policy. The Company does not own any asset-backed commercial paper.

Market risk

(a) Interest rate risk

The Company has significant cash balances, variable interest convertible debt and fixed rate debenture notes.

Unexpended cash is invested pursuant to the Company's treasury policy in short-term deposits with banks and in money markets. The Company regularly monitors the investments it makes and is satisfied with the credit ratings of its banks and the money market instruments.

(b) Foreign currency risk

The Company's functional currency is primarily the US dollar. Sales and the majority of major purchases are transacted in US dollars. The Company maintains the majority of its cash and cash equivalents in US dollars but it does hold balances in South African ZAR, GBP and Euros (for future expenditures which will be denominated in these currencies). It also maintains small balances in the local currency of the DRC, Congolese Francs.

The debentures payable are denominated in CND\$ and as such the Company is exposed to unrealized foreign exchange gains or losses which will be realized upon maturity of the debentures on November 30, 2013.

Other risks

There are other 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.

16. 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.