KATANGA MINING LIMITED

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2008 AND 2007

KATANGA MINING LIMITED

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

TABLE OF CONTENTS **PAGE**

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Note	Three months ended June 30		Six months ended June 30	
		2008	2007	**2008**	2007
Sales revenues	15	**48,847**	-	**139,003**	-
Cost of sales	15	**(32,556)**	-	**(137,508)**	-
		16,291	**-**	**1,495**	**-**
Other expenses/ income					
General and administrative	16	**(27,948)**	(3,404)	**(38,656)**	(6,461)
Debenture interest		**(4,567)**	(4,085)	**(9,288)**	(7,904)
Interest income		**5,838**	1,575	**12,897**	3,877
Other (expenses) income	17	**1,740**	(7,999)	**(7,398)**	(8,800)
Loss for the period before income taxes		**(8,646)**	**(13,913)**	**(40,950)**	**(19,288)**
Recovery of (provision for) income taxes	20	**(1,279)**	(79)	**13,629**	(139)
Net loss and comprehensive loss for the period		**(9,925)**	**(13,992)**	**(27,321)**	**(19,427)**
DEFICIT, beginning of period		**(70,099)**	(10,284)	**(52,703)**	(4,741)
Transition adjustment		**-**	-	**-**	(108)
DEFICIT, end of period		**(80,024)**	**(24,276)**	**(80,024)**	**(24,276)**
Basic and diluted loss per common share		**$(0.05)**	$(0.18)	**$(0.14)**	$(0.25)
Weighted average number of common shares outstanding		**206,251,193**	78,087,476	**192,687,097**	78,062,890

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

KATANGA MINING LIMITED

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Note	As at June 30, 2008	As at December 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents	6	352,529	100,714
Accounts receivable		30,133	-
Inventories	7	73,160	16,260
Foreign currency forward contract	11	507	-
Prepaid expenses and other current assets		19,728	11,539
		476,057	**128,513**
Property, plant and equipment	8	2,582,718	298,262
Mobilization charge, net		2,251	2,520
Future income tax asset	20	14,828	601
Deferred acquisition costs		-	18,926
		3,075,854	**448,822**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		115,266	43,450
Non-hedge derivative financial instruments	11	5,305	-
Restricted stock units	14	5,316	5,291
Accrued acquisition costs		4,116	18,404
		130,003	**67,145**
Long-term			
Convertible debt	10	156,721	149,518
Debentures payable	9	115,119	118,012
Asset retirement obligation	13	2,470	-
Future income tax liability	20	560,541	-
		964,854	**334,675**
SHAREHOLDERS' EQUITY			
Capital stock	12	20,642	7,901
Warrants	12	5,809	5,809
Contributed surplus	12	2,161,857	150,424
Equity component of convertible debt	10	2,716	2,716
Deficit		(80,024)	(52,703)
		2,111,000	**114,147**
		3,075,854	**448,822**

Description of business – Note 1
Acquisition of Nikanor Plc – Note 2
Commitments – Note 19

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Number of shares	Capital stock	Warrants	Contributed surplus	Equity component of convertible debt	Deficit
Balance at January 1, 2007	78,037,476	7,816	6,736	137,123	-	(4,741)
Options exercised during the year	216,667	22	-	1,189	-	-
Warrants exercised during the year	633,600	63	(927)	5,893	-	-
Options vested during the year	-	-	-	6,219	-	-
Equity component of convertible debt	-	-	-	-	2,716	-
Loss for the year	-	-	-	-	-	(47,854)
Transition adjustment		-	-	-	-	(108)
Balance at December 31, 2007	**78,887,743**	**7,901**	**5,809**	**150,424**	**2,716**	**(52,703)**
Options vested during the period	-	-	-	11,013	-	-
Performance awards vested during the period	-	-	-	3,121	-	-
Performance awards exercised during the period	191,023	19	-	(19)	-	-
Shares issued on acquisition of Nikanor PLC (note 2)	127,217,697	12,722	-	1,997,318	-	-
Loss for the period	-	-	-	-	-	(27,321)
Balance at June 30, 2008	**206,296,463**	**20,642**	**5,809**	**2,161,857**	**2,716**	**(80,024)**

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Note	Three months ended June 30		Six months ended June 30	
		2008	2007	**2008**	2007
Cash flows from operating activities					
Net loss for the period		**(9,925)**	(13,991)	**(27,321)**	(19,427)
Adjusted for:					
Depreciation		**3,496**	-	**3,496**	-
Non-cash fair value increase in cost of sales	15	**3,238**	-	**68,934**	-
Stock-based compensation		**7,008**	1,118	**8,174**	2,033
Debenture interest		**4,566**	4,085	**521**	7,904
Foreign exchange loss		**815**	9,673	**5,480**	10,405
Asset retirement obligation accretion		**30**	-	**60**	-
Net derivative loss (gain)		**(2,515)**	-	**1,858**	-
Future income taxes		**1,516**	-	**(13,629)**	-
Change in non cash working capital					
Decrease (Increase) in accounts receivable		**21,499**	-	**(1,047)**	-
Increase in inventory		**(11,547)**	(3,832)	**(17,460)**	(4,270)
Decrease in accounts payable		**(14,183)**	-	**(14,183)**	-
		3,998	**(2,947)**	**14,883**	**(3,355)**
Cash flows from investing activities					
Additions to property, plant and equipment		**(90,298)**	(62,628)	**(183,335)**	(93,256)
Cash (used) acquired on acquisition of Nikanor PLC, net of acquisition costs	2	**(25,682)**	**-**	**429,675**	**-**
		(115,980)	**(62,628)**	**246,340**	**(93,256)**
Cash flows from financing activities					
Issue of common shares, net of issue costs		**-**	177	**-**	177
		-	**177**	**-**	**177**
(Decrease) Increase in cash and cash equivalents		**(111,982)**	**(65,398)**	**261,223**	**(96,434)**
Cash and cash equivalents, beginning of period		**463,435**	166,041	**100,714**	196,986
Effect of exchange rate changes on cash held in foreign currencies		**1,076**	(24)	**(9,408)**	67
Cash and cash equivalents, end of period		**352,529**	**100,619**	**352,529**	**100,619**
Supplementary cash flow information					
Interest paid		**-**	**-**	**8,766**	-
Income taxes paid		**-**	**-**	**237**	-

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

1. DESCRIPTION OF BUSINESS

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. The Kamoto Project commenced commercial production on June 1, 2008 following the completion of operational commissioning of the initial phase of five phases of development, (see note 19) and the achievement of sustainable levels of production of both copper and cobalt.

DCP's assets 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. The facility is expected to begin production of both copper and cobalt in 2010.

2. 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.

The acquisition was achieved by:

a) The payment of $2.16 per share, ($446,148) in cash to each Nikanor shareholder. This amount was paid from Nikanor's cash resources prior to the distribution.
b) The issue by the Company of 0.613 new common shares for each Nikanor share outstanding. This resulted in the issuance of 127,217,697 common shares of the Company with an aggregate fair value of $2,010,040. The value ascribed to each Katanga share was determined using the average quoted market value of the Katanga shares two days before and two days after the announcement of the transaction ($15.80).

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

2. ACQUISITION OF NIKANOR PLC (CONTINUED)

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

The fair value of the assets purchased from Nikanor PLC, plus acquisition costs (including values assigned to rollover options and performance shares) and their associated future income tax liability is estimated to be:

Asset/Liability	**Fair Value**
Cash and cash equivalents (after the distribution in a) above)	406,660
Cash investments with maturities greater than three months	58,354
Inventories (after fair value increase from book value of $68,934)	108,375
Accounts receivable	18,342
Prepaid expenses and other current assets	15,899
Property, plant and equipment:	
KOV	1,833,368
Other	230,082
Future income tax asset	905
Future income tax liability	(570,691)
Accounts payable and accrued liabilities	(43,881)
Asset retirement obligation	(2,410)
Net derivative instruments	(2,940)
Total	**2,052,063**

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

For the purposes of the cash flow statement, the fair values of the assets and liabilities acquired from Nikanor have been included when calculating changes in non-cash working capital and additions to property, plant and equipment.

3. BASIS OF PRESENTATION AND NEW ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The preparation of the financial statements is based upon accounting policies and practices consistent with those used in the preparation of the 2007 audited consolidated financial statements with the exception of the adoption of the new accounting policies described below. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Notes to the Company’s 2007 audited consolidated financial statements, since they do not contain all disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented. The results of operations and cash flows for the current periods are not necessarily indicative of the results to be expected for the full year.

New Accounting Policies

Adopted in fiscal 2008

Capital Disclosures and Financial Instruments – Disclosures and Presentation

The Canadian Institute of Chartered Accountants (“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 Company has included disclosures recommended by the new Handbook section in note 4 to these interim consolidated financial statements.

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

To be adopted in fiscal 2009 and beyond

Convergence with International Financial Reporting Standards

The CICA plans to transition Canadian GAAP for public companies to International Financial Reporting Standards (“IFRS”). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements has not yet been determined.

3. BASIS OF PRESENTATION AND NEW ACCOUNTING POLICIES (CONTINUED)

CICA 3064 Goodwill and Intangible Assets

The CICA has issued Handbook Section 3064 Goodwill and Intangible assets which may affect the financial disclosures and results of operations of the Company. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and the Company will adopt the requirements commencing in the quarter ending March 31, 2009. Section 3064 establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC-27 Revenues and expenses during the pre-operating period. As a result of the withdrawal of EIC-27, the Company will no longer be able to defer costs incurred and revenues received prior to commercial production at new mine operations.

4. CAPITAL DISCLOSURES

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued production and rehabilitation.

The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly liquid, highly rated financial instruments.

The Company is currently in compliance with all capital requirements including requirements relating to its long-term debt.

5. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's consolidated financial position are summarized below:

Credit risk

The Company's credit risk in the current periods is primarily attributable to short-term deposits and trade receivables from copper, cobalt and concentrate sales. The Company has a concentration of credit risk with all sales primarily to two customers, which are closely monitored by management.

The majority of the Company's cash and cash equivalents are on deposit with banks or money market participants 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.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

(a) Interest rate risk

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

The interest rate on the convertible debt is currently fixed. If the debt is rolled over into a second year in November 2008, the interest rate is dependent upon the LIBOR rate at that time. A plus or minus 1% change in the LIBOR rate at June, 30 2008 would result in a change of $1,638 in interest over the remainder of the life of the debt.

(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. If the US dollar moved by plus or minus 1% at June 30, 2008 the unrealized foreign exchange gain or loss would move by approximately $586.

The debentures payable are denominated in CND$ and as such the Company is exposed to unrealized foreign exchange gains or losses which will be realised upon maturity of the debentures on November 30, 2013. A plus or minus 1% movement in the exchange rate at June, 30 2008 would affect the consolidated statement of operations by $1,234.

The Company holds non deliverable forward contracts to purchase a specified quantity of Chinese renminbi to hedge a capital contract, (see note 11a). These forward contracts have been fair valued on the consolidated balance sheet with fair value changes included in operations. A plus or minus 1% movement in the exchange rate will not change the US$ value of the contract because of the non-deliverable forward.

The Company has entered into two capital contracts denominated in EURO and Japanese YEN to purchase equipment which meet the definition of an embedded foreign currency derivative, see note 11b. A 1% plus or minus movement in the US$ rate against the EURO and Japanese YEN would result in a $340 change to the net derivative loss or gain.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Commodity price risk

The Company sells copper, cobalt and cobalt concentrate at prevailing market prices. Under certain revenue contracts, final pricing adjustments are made after delivery to customers. The Company is therefore exposed to changes in commodity prices of copper and cobalt both in respect of future sales and previous sales which remain open to final pricing.

The Company has not used any commodity price derivatives in this or the prior periods. There is currently no intention to hedge future copper and cobalt sales. This policy may change subject to financing arrangements.

A 1% plus or minus movement in the copper forward and cobalt spot price at June 30, 2008 would result in a $1,126 change to the revenue and trade receivables.

Liquidity risk

The Company has sufficient cash resources to provide liquidity to meet medium term requirements. The Company will require significant additional funding to complete the planned expansion of operations (see note 19). Securing adequate financing on a timely basis represents a liquidity risk to the Company.

Financial Instruments

At June 30, 2008 and December 31, 2007, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, foreign currency forward contract, prepaid expenses and other current assets, accounts payable and accrued liabilities, non-hedge derivative financial instruments and long-term debt. The Company estimates that the fair value of these financial instruments approximates the carrying values at June 30, 2008 and December 31, 2007, respectively.

6. CASH AND CASH EQUIVALENTS

The Company has entered into guarantees as required by certain capital contracts. An amount of $22 million is required to be held with a chartered bank in respect of these guarantees.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

7. INVENTORIES

	June 30, 2008	December 31, 2007
Ore in stockpiles	**13,672**	-
Work in progress	**13,951**	-
Finished product	**23,816**	-
Total product inventory	**51,439**	-
Consumables	**21,721**	16,260
	73,160	**16,260**

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	**Accumulated amortization**	**June 30, 2008**	**December 31, 2007**
Mineral interests				
Assets not subject to amortization	2,156,370	-	**2,156,370**	282,975
Assets subject to amortization	327,587	1,326	**326,261**	-
Total	**2,483,957**	**1,326**	**2,482,631**	**282,975**

Other property plant and equipment

	Cost	**Accumulated amortization**	**June 30, 2008**	**December 31, 2007**
Plant and equipment	58,370	2,666	**55,704**	-
Computer equipment	6,576	778	**5,797**	2,012
Computer software	499	158	**341**	20
Furniture and fixtures	3,464	718	**2,747**	914
Land and buildings	6,689	93	**6,596**	2,123
Tools	3,234	546	**2,688**	2,178
Vehicles	27,781	4,375	**23,406**	4,909
Closure and restoration costs	2,373	1,688	**685**	-
Leasehold improvements	1,114	176	**938**	994
Assets in transit	1,185	-	**1,185**	2,137
Total	**111,285**	**11,198**	**100,087**	**15,287**
Total property, plant and equipment			2,582,718	**298,262**

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

9. DEBENTURES PAYABLE

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Units") for an aggregate of CDN$115,000,000. Each Unit consists of a CDN$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants ("Warrants"). Each Warrant entitles the holder to purchase one common share of the Company anytime within five years from the closing date at CDN$8.50 per share. The Units do not trade and were separated into Notes and Warrants immediately upon issuance which trade separately. The Notes bear interest at the rate of 14% per annum, payable semi-annually in arrears in equal installments on January 1 and July 1 of each year, with interest payable from the closing date to June 30, 2007 added to the principal and cash interest payments commencing January 1, 2008. The Company may redeem the Notes, in whole or in part, at any time after November 20, 2009.

The Notes mature on November 20, 2013.

The resulting 4,600,000 Warrants were fair valued using the Black-Scholes valuation model at CDN$7,728,000 ($6,736,405) using the following underlying assumptions: dividend yield 0%, expected volatility (based on pricing of Warrants at time of debenture issue) 30%, risk-free rate of return 4.26% and expected life of 5 years. The fair value of each Warrant issued was CDN$1.68.

The debentures payable balance is comprised of the following:

	Six months ended June 30, 2008	Year ended December 31, 2007
Debentures payable, beginning of period	118,012	93,497
Changes during the period:		
Interest capitalized	-	8,331
Transition adjustment – deferred financing costs	-	(4,023)
Transition adjustment – interest	-	108
Accretion	765	1,540
Foreign exchange translation (gain) loss (1)	(3,658)	18,559
Debentures payable, end of period	**115,119**	**118,012**

(1) The foreign exchange translation gain or loss is unrealized and represents the revaluation of the CDN dollar denominated debentures to US dollars. The gain for the six months ended June 30, 2008 was $3,658, (three months ended June 30, 2008, loss of $1,460). These foreign exchange gains/ losses are included within other income/ expenses – (see note 17). The foreign exchange translation amount will change in accordance with the relevant movement of the CDN dollar to the US dollar. The foreign exchange translation gain or loss will be realized upon maturity of the debentures on November 20, 2013.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

10. CONVERTIBLE DEBT

On November 5, 2007, the Company's subsidiary KCC finalized a debt facility with Glencore International AG ("Glencore"). The key terms of the debt facility are a 2 year term, interest rate of LIBOR plus 4% (fixed in the first year at 8.6%), first year's interest added to the loan principal over the course 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.

The Company signed a conversion agreement with Glencore in relation to the debt. 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 of repayment.

The convertible debt is comprised of the following:

	Six months ended June 30, 2008	Year ended December 31, 2007
Convertible debt, beginning of period	149,518	
Glencore International AG debt facility – principal amount	-	150,000
Equity component of convertible debt (1)	-	(2,716)
Interest capitalized	6,524	2,008
Accretion (2)	679	226
Convertible debt, end of period	**156,721**	**149,518**

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

(2) The convertible debt is being accreted to its face value over the term of the loan with a corresponding interest charge. From the date of issuance to June 30, 2008, all of this interest totalling $905 has been capitalized to mineral interests.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

11. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of all derivatives are separately recorded on the consolidated balance sheet. Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contract and the host contract is not carried at fair value. No derivatives or embedded derivatives were designated as a hedge.

The Company has acquired three foreign exchange derivatives at fair value as a consequence of the acquisition of Nikanor PLC:

a) Chinese Renminbi derivative

The Company has entered into a capital 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 number of non-deliverable forwards to sell $34,398 in exchange for 245 million renminbi on various dates in line with the contract payment dates.

The non-deliverable forwards have been fair valued and recorded as a foreign currency forward contract on the interim consolidated balance sheet. The change in the fair value of the contract for the period ended June 30, 2008 is included in the interim consolidated statement of operations under other expenses/ income. During the six months ended June 30, 2008, a gain of $212, (three months ended June 30, 2008, loss of $529) was recognized as a result of the change in the value of the US dollar relative to the Renminbi.

b) Embedded derivatives in capital contracts

The Company has entered into two capital contracts to purchase equipment which are determined as embedded foreign currency derivatives. These contracts are fair valued on the interim consolidated balance sheet. The change in the fair value of these derivatives for the period resulted in a loss of $2,070 for the six months ended June 30, 2008, (three months ended June 30, 2008, a gain of $3,044) which has been included in other expenses/ income in the interim consolidated statement of operations. The loss and gain are principally a result of the dollar weakening against the EURO and YEN.

A summary of the assets and liabilities associated with the derivatives referred to in a) and b) above is as follows:

	As at June 30, 2008	Fair value at date of acquisition of Nikanor
Current		
Foreign currency forward contract	**507**	295
Embedded foreign currency derivatives	**(5,305)**	0
Non-Current		
Embedded foreign currency derivatives		(3,235)
	(4,798)	(2,940)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS

(a) AUTHORIZED

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

(b) WARRANTS

The following table reflects the continuity of warrants during the six months ended June 30, 2008:

Expiry date	Exercise price (1)	Outstanding December 31, 2007	Issued during the period	Exercised/ Expired during the period	Outstanding 31, March 2008
November 20, 2011 (1)	CDN$8.50	3,966	-	-	3,966

(1) The fair market value originally assigned to outstanding warrants was CDN$7,728 ($6,736). CDN$1,064 ($927) was transferred from warrants to capital stock and contributed surplus with respect to warrants exercised during the year ended December 31, 2007.

(c) STOCK OPTIONS

The following table reflects the continuity of stock options for the period:

	Number of stock options	Weighted Exercise Price per Share (1)
Outstanding at December 31, 2007	3,148,333	10.06
Granted during the period January 1, to June 30	1,665,000	14.24
Options issued to former Nikanor option holders	928,234	16.10
Outstanding at June 30, 2008	**5,741,567**	**12.25**

(1) Denominated in Canadian dollars.

During the three months ended March 31, 2008, 1,025,000 stock options were granted pursuant to the Company's stock option plan with an average exercise price of $14.77. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 63%, risk-free rate of return 3.88% and expected maturity of 5 years. The weighted average grant date fair value of each option was $8.17. The total fair value assigned to these options was $8,374. These options vest at a rate of 33.33% in each of 2009, 2010 and 2011, respectively.

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

During the three months ended June 30, 2008, a further 640,000 stock options were granted pursuant to the Company's stock option plan with an average exercise price of $13.40. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 77%, risk-free rate of return 3.67% and expected maturity of 5 years. The weighted average grant date fair value of each option was $8.22. The total fair value assigned to these options was $5,261. These options vest at a rate of 33.33% in each of 2009, 2010 and 2011, respectively.

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. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 63%, risk-free rate of return 3.75% and expected maturity of 10 years. The weighted average grant date fair value of each option was $11.20. The total fair value assigned to these options was $10,377. These options vest at a rate of 25% in years 2, 3, 4 and 5 after their grant date.

.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

The following table summarizes the stock options outstanding at June 30, 2008:

Exercise Price per Share (1)	Expiry Date	Exercisable Options	Outstanding unvested Options (2)
$4.10	January 17, 2011	30,000	-
$7.40	April 19, 2011	500,000	283,333
$6.15	July 6, 2011	33,333	266,667
$6.00	July 9, 2011	61,667	123,333
$7.30	December 17, 2011	125,000	450,000
$7.20	December 31, 2011	16,667	33,333
$6.61	January 7, 2012	16,667	33,333
$6.66	January 29, 2012	8,333	16,667
$12.81	April 1, 2012	58,333	116,667
$15.97	May 6, 2012	8,333	16,667
$16.29	May 9, 2012	33,333	66,667
$17.50	June 3, 2012	8,333	16,667
$18.09	July 1, 2012	-	50,000
$20.10	August 31, 2012	-	100,000
$17.93	September 25, 2012	-	50,000
$16.28	October 12, 2012	-	50,000
$14.61	December 5, 2012	-	575,000
$14.77	January 24, 2013	-	1,025,000
$16.10	July 16, 2016	420,040	282,336
$16.10	September 24, 2016	48,528	74,409
$16.10	January 8, 2017	71,763	-
$16.10	March 28, 2017	31,158	-
$13.59	April 28, 2013	540,000	-
$13.25	April 30, 2013	50,000	-
$11.47	May 14, 2013	50,000	-
		2,111,488	**3,630,079**

(1) Denominated in Canadian dollars.
(2) The aggregate fair value of these unvested options not yet charged to operations is CDN$ 18,580.
The weighted average exercise price of exercisable options is CDN$ 11.81 and outstanding unvested options is CDN$ 12.50.

12. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

(d) NIKANOR PERFORMANCE AWARDS

In 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 common shares to former Nikanor employees. The fair value of each option was $15.80, the value of the Company's shares at the date of acquisition. The total fair value assigned to these options was $3,811 and this has been included as part of the acquisition costs (see Note 2). These awards vest at a rate of 50% in years 3 and 4 after their grant date and the fair value will be accounted for in contributed surplus over the vesting period. If an employee should leave the Company as part of the merger process then the performance awards become exercisable on their leaving date and the full value assigned to their award will be recognized in contributed surplus immediately. If the future leaving date has been agreed with an employee, the vesting period has been changed to reflect the new leaving date.

In the six months ended June 30, 2008, 191,023 of these awards have been exercised as part of the arrangements applicable to former Nikanor employees.

13. ASSET RETIREMENT OBLIGATION ("ARO")

AROs arise from the acquisition, development, construction and normal operation of mining property, plant and equipment due to government controls and regulations that protect the environment on the closure and reclamation of mining properties.

The ARO which arose on the acquisition of Nikanor was recorded at fair value. Fair value was calculated by discounting the expected cash flows using a discount factor of 5% that reflects the credit adjusted risk free rate of interest. The majority of the ARO relates to maintenance and monitoring of the site, earthworks, rehabilitation and reclamation of mining areas. It is anticipated that these costs will be incurred over a period of 7-30 years.

The ARO was acquired at a fair value of $2,410 and $60 was accreted in other expense/ income in the interim consolidated statement of operations in the six month period ended June 30, 2008, (three month period ended June 30, 2008 - $30), resulting in a balance of $2,470 at June 30, 2008.

A revised feasibility study incorporating all the assets of KCC and DCP is being completed and may result in potential additional ARO liabilities in respect of the KCC and DCP assets.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

14. RESTRICTED STOCK UNITS ("RSUs")

Included on the Company's June 30, 2008 interim consolidated balance sheet is a payable of $5,316 related to the issuance of 661,301 RSU's (December 31, 2007 - $5,291 related to the issuance of 740,434 RSUs).

	Number of RSUs 2008	Number of RSUs 2007
Outstanding at December 31,	740,434	365,000
Granted during the period January 1, to March 31,	-	20,000
Cancelled during the period January 1, to March 31,	(22,800)	-
Vested during the period January 1, to March 31,	(153,466)	-
Granted during the period April 1, to June 30,	116,300	42,500
Vested during the period April 1, to June 30,	(14,167)	(65,000)
Outstanding at June 30,	**666,301**	**362,500**

15. SALES AND COST OF SALES

	Three months ended June 30, 2008	Six months ended June 30, 2008
Copper	19,468	19,498
Cobalt	2,568	2,568
Cobalt/ copper concentrate	26,811	116,937
	48,847	**139,003**

Copper and cobalt revenue relates to KCC sales in the month of June 2008 following the commencement of commercial production on June 1, 2008 (as explained in Note 1).

Cobalt concentrate sales relate to the DCP operation, acquired on January 11, 2008 pursuant to the acquisition of Nikanor. In accounting for the acquisition of Nikanor, the concentrate acquired was recorded at its fair value being its estimated selling price. Accordingly, cost of sales includes $68,934 representing the fair value increment assigned to the acquired concentrate all of which has been sold during the period. As a consequence of this accounting, the difference between the estimated fair value and actual realized sales price has been included in the consolidated statement of operations. Sales of concentrate produced subsequent to the acquisition, (from June 1, 2008 – the date by which all acquired concentrate was sold) of Nikanor will reflect more normal profit margins.

Copper, cobalt and cobalt concentrate sales are made under various sales agreements. Sales are made at a provisional price in the month of shipment with final pricing based on average copper and cobalt prices at a specified period as stated in the relevant sales agreement. This provisional sale results in an embedded derivative, the host contract being the sale of metal at provisional price and the embedded derivative being the forward contract for which the provisional sale is subsequently adjusted. At each reporting date, open provisionally priced sales which retain an exposure to future changes in commodity prices are marked-to-market based on London Metal Exchange ('LME') forward prices for copper and spot London Metals Bulletin ('LMB') prices for cobalt (due to the absence of a futures market), with

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

15. SALES AND COST OF SALES (continued)

adjustments being recorded in sales in the statement of operations and accounts receivable on the balance sheet. The marked-to-market loss for the six months ended June 30, 2008 was $1,268, (three months ended June 30, 2008, $6,073).

16. GENERAL AND ADMINISTRATIVE COSTS

a) Stock-based compensation

Stock-based compensation charges are included in general and administrative expense. The amount expensed for the six months ended June 30, 2008 was $10,936, three months ended June 30, 2008, $8,506, (six months ended June 30, 2007, $2,497, three months ended June 30, 2007, $1,582).

b) Termination benefits

On June 9, 2008 the current President and CEO tendered his resignation. General and administrative expenses for the three and six months ended June 30, 2008 includes amounts accrued in respect of the contractual termination benefits to which he is entitled pursuant to employment and change of control agreements. The amounts accrued include termination entitlements of $5,270 (including employment taxes) and accelerated stock-based compensation charges of $4,375, which is included in the stock-based compensation charges referenced above for each of the three and six month periods ended June 30, 2008.

17. OTHER (EXPENSES) INCOME

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Foreign exchange losses	**(745)**	(7,999)	**(5,480)**	(8,800)
Net derivative gains (losses) (note 11)	**2,515**	-	**(1,858)**	-
Accretion of asset retirement obligation	**(30)**	-	**(60)**	-
	1,740	(7,999)	**(7,398)**	(8,800)

18. RELATED PARTY TRANSACTIONS

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

Related Parties

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. Fees to the end of May, 2008 have been capitalized to mineral interests. From the commencement of commercial production on June 1, 2008, fees have been expensed to the consolidated statement of operations and comprehensive loss and deficit.

The Company has the option to acquire KOL ("KOL Call Option"). The purchase price payable if the KOL Call Option was to be 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. The Company has opted not to acquire KOL pursuant to the KOL call option. However, the Company is negotiating with the shareholders of KOL to acquire it. The agreed consideration will be subject to a review by an independent investment bank and the issuance of a fairness opinion to the Company.

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, civils work and the construction of a tailings dam.

Malta Forrest, who is a Director and has a beneficial interest in the Company, provides consultation 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, 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 has 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.

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

18. RELATED PARTY TRANSACTIONS (Continued)

Glencore, is a major shareholder and is 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 has also provided funding to the Company in the form of convertible debt (Note 10).

Transactions

All transactions are in the normal course of business. The following table provides that total amount of the transactions entered into with these related parties:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Purchases from related parties		
KOL	5,644	2,896
EGMF	14,055	3,212
Malta Forrest	90	-
Bateman	9,118	-
DEM	6,408	-
Gécamines	2,560	-
Sales to related parties		
DEM	655	
Glencore	92,600	-

	As at June 30, 2008	As at December 31, 2007
Amounts owed to related parties		
KOL	4,698	2,448
EGMF	2,847	3,410
Bateman	4,861	-
DEM	1,534	-
Glencore (convertible debt)	156,721	149,518
Amounts owed by related parties		
Glencore	6,334	-

19. COMMITMENTS

The Company is obligated under the terms of an operating lease for minimum annual property office rental payments of $1,040 for a period of five years, commencing September 19, 2006, with an option to renew for a further five years.

The Company now estimates its capital expenditures for the redevelopment of the Kamoto Project to be $515 million (inclusive of costs already incurred) over the next thirty months ending December 31, 2010. As a result of the acquisition of Nikanor (see Note 2), 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 $152 million of which $93 million has been committed and $54 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. The costs for phase V are being reviewed as part of the feasibility study currently being prepared.

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

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

20. INCOME TAXES

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statements of operations:

	Three months ended		**Six months ended**	
	June 30 2008	June 30 2007	**June 30 2008**	June 30 2007
Loss before income taxes reflected in the consolidated statements of operations	**(8,646)**	(13,913)	**(40,950)**	(19,288)
Expected income tax recovery at Canadian statutory rates	**2,550**	5,025	**12,080**	6,967
Effect of differences in foreign tax rates	**8,787**	18	**11,695**	31
Effect of change in temporary differences not recognized	**(4,441)**	(3,188)	**(1,650)**	(4,345)
Permanent differences	**(884)**	(2,330)	**615**	(2,787)
Current period losses not recognized	**(7,291)**	396	**(9,111)**	(5)
Recovery of (provision for) income taxes:	**(1,279)**	**(79)**	**13,629**	(139)

The following tables reflect the future income tax asset and liability amounts at June 30, 2008 and December 31,2007:

	June 30, 2008	December 31, 2007
Future income tax assets		
Exploration and development	**18,005**	7,233
Non-capital losses carried forward	**21,238**	4,127
Other	**13,913**	1,874
	53,156	**13,234**
Less: valuation allowance	**(38,328)**	(12,633)
Total future tax assets	**14,828**	**601**
Future income tax liabilities		
Exploration and development	**(556,051)**	-
Property, plant and equipment	**(4,490)**	-
Total future tax liabilities	**(560,541)**	**-**
Net future tax	**(545,713)**	**601**

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

20. INCOME TAXES (Continued)

The comparative amounts for 2007 have been reclassified for presentational purposes.

The future income tax asset of $14,828 primarily represents deferral of tax relief on certain costs which are capitalized into stock and mineral interests under Congo GAAP.

The Company has recorded a valuation allowance in respect of non-capital losses and other tax assets in the amount of $38,328 as at June 30, 2008 (December 31, 2007 - $12,663) as it is not considered to be more likely than not that the benefit associated with these losses and other tax assets will be realized prior to their expiry.

The Company has recorded a future income tax liability of $570,691 in respect of the acquisition of Nikanor PLC, (see note 2), of which $20,680 has reversed during the period. The balance at the end of the period is included in the $556,051 shown above.

Gross non-capital losses carried forward of $17,427 expired on the acquisition of Nikanor PLC. As at June 30, 2008, the Company had gross non-capital losses available for future use expiring as follows:

2013 and thereafter	73,103
	73,103

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

21. SEGMENTED INFORMATION

The Company is engaged in mining, exploration and development and has assets and operations in Canada, the United Kingdom, South Africa and the DRC. For management purposes results are reported at the corporate level (Canada, the United Kingdom and South Africa) and at the operational level in the DRC as described below:

	Corporate	Operations in Democratic Republic of Congo	Total
As at June 30, 2008			
Cash and cash equivalents	350,977	1,552	**352,529**
Other assets	9,890	2,713,435	**2,723,325**
Total Assets	360,867	2,714,987	**3,075,854**
As at December 31, 2007			
Cash and cash equivalents	99,586	1,128	**100,714**
Other assets	25,232	322,876	**348,108**
Total Assets	124,818	324,004	**448,822**
Three months ended June 30, 2008			
Revenue	-	48,847	**48,847**
Net income (loss)	(1,985)	(7,940)	**(9,925)**
Interest income	4,808	1,029	**5,838**
Debenture interest	(4,567)	-	**(4,567)**
Recovery of income taxes	62	(1,341)	**(1,279)**
Six months ended June 30, 2008			
Revenue	-	139,003	**139,003**
Net income (loss)	2,384	(29,705)	**(27,321)**
Interest income	11,749	1,147	**12,897**
Debenture interest	(9,288)	-	**(9,288)**
Recovery of income taxes	73	13,556	**13,629**
Three months ended June 30, 2007			
Net loss	(13,992)	-	**(13,992)**
Interest income	1,575	-	**1,575**
Debenture interest	(4,085)	-	**(4,085)**
Provision for income taxes	(79)	-	**(79)**
Six months ended June 30, 2007			
Net loss	(19,427)	-	**(19,427)**
Interest income	3,877	-	**3,877**
Debenture interest	(7,904)	-	**(7,904)**
Provision for income taxes	(139)	-	**(139)**

Certain comparative figures have been reclassified to conform to the current period's presentation.

23. CONTRACT REVIEW AND MASHAMBA WEST AND DIKULUWE DEPOSITS

Contract Review

On February 11, 2008, KCC received letters from the Minister of Mines for the DRC notifying both 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 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 DCP and KCC. DCP and KCC has formally responded to the Minister of Mines.

The Company continues active discussions with both the DRC Government and Gécamines to merge the existing KCC and DCP joint venture agreements into one combined joint venture agreement. This combined joint venture agreement is expected to address the letters received by each of KCC and DCP from the Minster of Mines for the DRC and to incorporate all of the matters agreed to in the February 8, 2008 agreement and August 2008 Memorandum of Understanding, as further discussed below.

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. 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, ("February 2008 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

23. CONTRACT REVIEW AND MASHAMBA WEST AND DIKULUWE DEPOSITS (CONTINUED)

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.

August 2008 Memorandum of Understanding (MOU)

On August 5, 2008, Katanga announced a new Memorandum of Understanding with Gécamines that will be the basis for amending the KCC Joint Venture Agreement so that it incorporates provisions of the February 2008 Agreement as well as merges the DCP and KCC joint ventures, and addresses Government requirements resulting from the review of mining partnerships with Gécamines.

The MOU is consistent with each of the existing joint venture agreements in that 75% of the share capital of the merged JV is allocated to Katanga's wholly owned subsidiaries KFL Limited and GEC and 25% to Gécamines.

Additionally, the MOU provides the following:

1. The share capital of the merged JV will be increased from $1 million to $100 million
2. Upon implementation of the merged JV, 5% of all additional joint venture funding until the project reaches 150,000 tonnes of copper output per year will be non-interest bearing and the remaining 95% will bear interest at a rate not greater than LIBOR plus 3%.
3. The royalty rate for equipment and facilities provided by Gécamines as well as for ore reserve depletion will increase from 1.5% to 2.5% of net revenues.
4. The first cash payment to Gécamines for transfer of exploitation permits and mining rights pursuant to the February 2008 Agreement is $5 million and will be made on implementation of the merged JV.
5. The Board of KCC will be increased to eight members, three of whom will be appointed by Gécamines, and KCC will assume day-to-day management of the merged JV's operations within 12 months from the date of this MOU. This will result in the elimination of the current operating agreement with KOL.