

**KATANGA MINING LIMITED**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2008 AND 2007**

# KATANGA MINING LIMITED

## UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

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# KATANGA MINING LIMITED

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	Note	Three months ended September 30		Nine months ended September 30	
		2008	2007	2008	2007
Sales revenues	15	57,649	-	196,652	-
Cost of sales	15	(48,104)	-	(168,586)	-
Royalties and transportation cost		(11,594)	-	(33,188)	-
Depreciation		(6,151)	-	(8,881)	-
		(8,200)	-	(14,003)	-
<b>Other expenses/ income</b>					
General and administrative	16	(22,685)	(3,368)	(54,103)	(9,829)
Debenture interest		(4,627)	(6,141)	(13,915)	(14,045)
Interest income		2,103	736	15,000	4,613
Other (expenses) income	17	(6,037)	(7,541)	(13,375)	(16,341)
<b>Loss for the period before income taxes</b>		<b>(39,446)</b>	<b>(16,314)</b>	<b>(80,396)</b>	<b>(35,602)</b>
Recovery of (provision for) income taxes	20	628	(77)	14,257	(216)
<b>Net loss and comprehensive loss for the period</b>		<b>(38,818)</b>	<b>(16,391)</b>	<b>(66,139)</b>	<b>(35,818)</b>
Basic and diluted loss per common share		<b>\$(0.19)</b>	\$(0.21)	<b>\$(0.34)</b>	\$(0.46)
Weighted average number of common shares outstanding		<b>206,299,221</b>	78,762,378	<b>197,257,591</b>	78,298,615

*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 September 30, 2008	As at December 31, 2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash, cash equivalents and restricted cash	6	178,257	100,714
Accounts receivable		19,822	-
Inventories	7	97,286	16,260
Prepaid expenses and other current assets		30,023	11,539
		<b>325,388</b>	<b>128,513</b>
Property, plant and equipment	8	2,675,730	298,262
Mobilization charge, net		2,066	2,520
Future income tax asset	20	26,211	601
Deferred acquisition costs		-	18,926
		<b>3,029,395</b>	<b>448,822</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		97,759	43,450
Non-hedge derivative financial instruments	11	618	-
Restricted stock units	14	1,941	5,291
Accrued acquisition costs		2,971	18,404
		<b>103,289</b>	<b>67,145</b>
<b>Long-term</b>			
Convertible debt	10	160,358	149,518
Debentures payable	9	112,284	118,012
Asset retirement obligation	13	2,499	-
Future income tax liability	20	575,783	-
		<b>954,213</b>	<b>334,675</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	12	20,643	7,901
Warrants	12	5,809	5,809
Contributed surplus	12	2,164,856	150,424
Equity component of convertible debt	10	2,716	2,716
Deficit		(118,842)	(52,703)
		<b>2,075,182</b>	<b>114,147</b>
		<b>3,029,395</b>	<b>448,822</b>

Description of business and going concern uncertainty – 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)
<b>Balance at December 31, 2007</b>	<b>78,887,743</b>	<b>7,901</b>	<b>5,809</b>	<b>150,424</b>	<b>2,716</b>	<b>(52,703)</b>
Options vested during the period	-	-	-	13,731	-	-
Performance awards vested during the period	-	-	-	3,403	-	-
Performance awards exercised during the period	196,923	20	-	(20)	-	-
Shares issued on acquisition of Nikanor PLC (note 2)	127,217,697	12,722	-	1,997,318	-	-
Loss for the period	-	-	-	-	-	(66,139)
<b>Balance at September 30, 2008</b>	<b>206,302,363</b>	<b>20,643</b>	<b>5,809</b>	<b>2,164,856</b>	<b>2,716</b>	<b>(118,842)</b>

*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		Nine months ended	
		September 30		September 30	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
Net loss for the period		(38,818)	(16,391)	(66,139)	(35,818)
Adjusted for:					
Depreciation		6,340	-	9,836	-
Non-cash fair value increase					
in cost of sales	15	-	-	68,934	-
Stock-based compensation		(3,544)	1,954	4,630	3,986
Debenture interest		(3,895)	5,922	(3,374)	13,826
Foreign exchange loss		5,232	7,734	10,712	18,139
Asset retirement obligation accretion		29	-	89	-
Net derivative loss		805	-	2,663	-
Future income taxes		(628)	-	(14,257)	-
Change in non cash working capital					
Decrease/ (increase) in accounts receivable		10,312	-	(1,479)	-
Increase in prepaid expenses and other current assets		(11,082)	-	(338)	-
Increase in inventories		(24,127)	(5,930)	(41,587)	(10,200)
Decrease in accounts payable		(156)	-	(14,339)	-
		(59,532)	(6,711)	(44,649)	(10,067)
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment		(106,525)	(62,329)	(289,860)	(155,584)
Cash (used) acquired on acquisition of Nikanor PLC, net of acquisition costs	2	(1,299)	-	428,376	-
		(107,824)	(62,329)	138,516	(155,584)
<b>Cash flows from financing activities</b>					
Issue of common shares, net of issue costs		-	6,062	-	6,239
		-	6,062	-	6,239
<b>(Decrease) Increase in cash and cash equivalents</b>					
		(167,356)	(62,978)	93,867	(159,412)
Cash, cash equivalents and restricted cash beginning of period		352,529	100,619	100,714	196,986
Effect of exchange rate changes on cash held in foreign currencies		(6,916)	228	(16,324)	295
Cash, cash equivalents and restricted cash end of period		178,257	37,869	178,257	37,869
<b>Supplementary cash flow information</b>					
Interest paid		8,523	219	17,289	219
Income taxes paid		-	-	237	-

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

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

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 development.

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.

The unaudited interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company does not have sufficient cash to fund planned capital expenditures to support the ramp up of ongoing operations to a self-sustaining level. As a result, the Company will require additional funding which, if not raised, will result in the curtailment of operating activities and project delays. The Company is currently examining a number of financing alternatives to allow the Company to continue the development of the Kamoto Project and the KOV pit. However, there can be no assurances that the Company's activities will be successful and as a result there is substantial doubt over the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications may be necessary. These adjustments could be material.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 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 acquisition.
- 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).

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:

<b>Asset/Liability</b>	<b>Fair Value</b>
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)
<b>Total</b>	<b>2,052,063</b>

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.

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

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 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 GAAP. The preparation of the financial statements is based upon accounting policies and practices consistent with those used in the preparation of the 2007 annual 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 annual 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.

#### **2007 and prior period Figures**

Certain of the 2007 and prior period figures have been reclassified to conform with current period financial statement presentation.

#### **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.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 3. BASIS OF PRESENTATION AND NEW ACCOUNTING POLICIES (Continued)

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.

##### 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. See note 1 regarding going concern uncertainty disclosure.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 5. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and their 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.

#### Market risk

##### (a) Interest rate risk

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

The interest rate on the convertible is fixed at 7.2% for the remaining life of the debt. The debenture notes are fixed at a rate of 14.0%.

##### (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 September 30, 2008 the unrealized foreign exchange gain or loss would move by approximately \$195.

The debentures payable are denominated in CAD\$ 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 September, 30 2008 would affect the consolidated statement of operations by \$1,191.

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 dollar value of the contract because of the non-deliverable forward.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

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### 5. FINANCIAL RISK MANAGEMENT (Continued)

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 dollar rate against the EURO and Japanese YEN would result in a \$260 change to the net derivative loss or gain.

#### (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.

As at September 30, 2008 the Company had 2,749 tonnes of copper and 3,363 tonnes of concentrate sales for which final commodity prices have yet to be determined. These were valued at the end of the period at an average commodity price of \$6,399 and \$2,897 per tonne, (actual dollars) of copper and cobalt concentrate respectively. A 1% plus or minus movement in the copper and cobalt price at September 30, 2008 would result in a \$274, (thousand) change to revenue and trade receivables.

#### Liquidity risk

The Company has sufficient cash resources to provide liquidity to meet short term requirements. The Company will require significant additional funding to complete the planned expansion of operations. Securing adequate financing on a timely basis represents a liquidity risk to the Company. See note 1 regarding going concern disclosure.

#### Financial Instruments

At September 30, 2008 and December 31, 2007, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, 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 September 30, 2008 and December 31, 2007, respectively.

### 6. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Company has entered into guarantees as required by certain capital contracts. As at September 30, 2008 the Company has a restricted cash deposit of \$22,432 which is held with a chartered bank in respect of these guarantees and included with cash on the balance sheet and cash flow statement.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

### 7. INVENTORIES

	September 30, 2008	December 31, 2007
Ore in stockpiles	20,654	-
Work in progress	12,092	-
Finished product	37,569	-
<b>Total product inventory</b>	<b>70,315</b>	<b>-</b>
Consumables	26,971	16,260
	<b>97,286</b>	<b>16,260</b>

### 8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	September 30, 2008	December 31, 2007
<b>Mineral interests</b>				
Capitalized development expenditures	2,243,937	-	2,243,937	282,975
Assets subject to amortization	331,796	5,149	326,647	-
<b>Total</b>	<b>2,575,733</b>	<b>5,149</b>	<b>2,570,584</b>	<b>282,975</b>

#### Other property plant and equipment

	Cost	Accumulated amortization	September 30, 2008	December 31, 2007
Plant and equipment	63,609	4,606	59,003	-
Computer equipment	5,044	985	4,059	2,012
Computer software	601	194	407	20
Furniture and fixtures	3,475	937	2,538	914
Land and buildings	7,321	134	7,187	2,123
Tools	3,920	670	3,250	2,178
Vehicles	32,322	5,729	26,593	4,909
Closure and restoration costs	2,373	1,718	655	-
Leasehold improvements	1,107	204	903	994
Assets in transit	551	-	551	2,137
<b>Total</b>	<b>120,323</b>	<b>15,177</b>	<b>105,146</b>	<b>15,287</b>
<b>Total property, plant and equipment</b>			<b>2,675,730</b>	<b>298,262</b>

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

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

### 9. DEBENTURES PAYABLE

On November 20, 2006 the Company closed a debenture offering of 115,000 units ("Units") for an aggregate of CAD\$115,000,000. Each Unit consists of a CAD\$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 CAD\$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 CAD\$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 CAD\$1.68.

The debentures payable balance is comprised of the following:

	<b>Nine months ended September 30, 2008</b>	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	1,153	1,540
Foreign exchange translation (gain) loss (1)	(6,881)	18,559
<b>Debentures payable, end of period</b>	<b>112,284</b>	<b>118,012</b>

- (1) The foreign exchange translation gain or loss is unrealized and represents the revaluation of the CAD dollar denominated debentures to US dollars. The gain for the nine months ended September 30, 2008 was \$6,881, (three months ended September 30, 2008 gain of \$3,223). 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 CAD dollar to the US dollar. The foreign exchange translation gain or loss will be realized upon maturity of the debentures on November 20, 2013.

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

### 10. CONVERTIBLE DEBT

On November 5, 2007 the Company's subsidiary KCC finalized a 2 year term 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% and added to the loan principal, fixed at 7.2% for remaining life of debt), 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, into 9,157,509, common shares of the Company. If the loan is repaid early, in part or in full, Glencore must exercise its conversion rights within 21 days of repayment.

The convertible debt is comprised of the following:

	<b>Nine months ended September 30, 2008</b>	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	9,822	2,008
Accretion (2)	1,018	226
<b>Convertible debt, end of period</b>	<b>160,358</b>	<b>149,518</b>

(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 September 30, 2008 all of this interest totalling \$1,244 has been capitalized to mineral interests.

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### 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 September 30, 2008 is included in the interim consolidated statement of operations under other expenses/ income. During the nine months ended September 30, 2008, a loss of \$302, (three months ended September 30, 2008 loss of \$514) 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. Following substantial payments on these contracts the fair value liability at acquisition of \$3,235 has reduced to \$611 at September 30, 2008. These payments are booked at their fair values at the inception of the derivative contracts, consequently an amount of \$4,985 has been offset against payments made in the nine month period to September 30, 2008. In addition a loss of \$2,361 has been included in other expenses/ income in the interim consolidated statement of operations for the nine months ended September 30, 2008 (three months ended September 30, 2008 \$291 loss).

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

	<b>As at September 30, 2008</b>	Fair value at date of acquisition of Nikanor
<b>Current</b>		
Foreign currency forward contract	(7)	295
Embedded foreign currency derivatives	(611)	-
<b>Non-Current</b>		
Embedded foreign currency derivatives	-	(3,235)
	<b>(618)</b>	<b>(2,940)</b>

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

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### 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 nine months ended September 30, 2008:

Expiry date	Exercise price (1)	Outstanding December 31, 2007	Issued during the period	Exercised/ Expired during the period	Outstanding 30, September 2008
November 20, 2011 (1)	CAD\$8.50	3,966	-	-	3,966

(1) The fair market value originally assigned to outstanding warrants was CAD\$7,728 (\$6,736). CAD\$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 September 30	1,965,000	13.67
Cancelled during the period January 1, to September 30	(250,000)	15.29
Options issued to former Nikanor option holders	902,353	16.10
Outstanding at September 30, 2008	<b>5,765,686</b>	<b>12.00</b>

(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.

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### 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.

During the three months ended September 30, 2008, a further 300,000 stock options were granted pursuant to the Company's stock option plan with an exercise price of \$10.50. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 69%, risk-free rate of return 3.5% and expected maturity of 5 years. The grant date fair value of each option was \$3.98. The total fair value assigned to these options was \$1,194. 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.

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### 12. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

The following table summarizes the stock options outstanding at September 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	522,222	261,111
\$6.15	July 6, 2011	200,000	100,000
\$6.00	July 9, 2011	123,333	61,667
\$7.30	December 17, 2011	391,667	183,333
\$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	8,333	16,667
\$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	16,667	33,333
\$20.10	August 31, 2012	16,667	33,333
\$16.28	October 12, 2012	-	50,000
\$14.61	December 5, 2012	-	575,000
\$14.77	January 24, 2013	500,000	525,000
\$16.10	July 16, 2016	490,625	211,751
\$16.10	September 24, 2016	52,572	44,484
\$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
\$10.50	August 15, 2013	-	300,000
		<b>2,546,673</b>	<b>3,219,013</b>

(1) Denominated in Canadian dollars.

(2) The aggregate fair value of these unvested options not yet charged to operations is CAD\$ 13,800.

The weighted average exercise price of exercisable options is CAD\$ 10.56 and outstanding unvested options is CAD\$ 12.60.

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### 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 nine months ended September 30, 2008, 196,923 of these awards have been exercised and 11,063 cancelled 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 \$89 was accreted in cost of sales in the interim consolidated statement of operations in the nine month period ended September 30, 2008, (three month period ended September 30, 2008 - \$29), resulting in a balance of \$2,499 at September 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.

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### 14. RESTRICTED STOCK UNITS ("RSUs")

Included on the Company's September 30, 2008 interim consolidated balance sheet is a payable of \$1,941 related to the issuance of 629,635 RSUs (December 31, 2007 - \$5,291 related to the issuance of 740,434 RSUs). In the nine months ended September 30, 2008 131,300 (15,000 in the three months ended September 30, 2008) RSUs were granted to the Company's Directors, senior officers, employees and consultants, (nine months and three months ended September 30, 2007 87,500 and 25,000 respectively).

### 15. SALES AND COST OF SALES

	Three months ended September 30, 2008	Nine months ended September 30, 2008
Copper	22,542	41,966
Cobalt	17,920	20,489
Cobalt concentrate	17,187	134,197
	<b>57,649</b>	<b>196,652</b>

Copper and cobalt revenue relates to KCC sales 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 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 adjustments being recorded in sales in the statement of operations and accounts receivable on the balance sheet. The marked-to-market loss for the nine months ended September 30, 2008 was \$13,325, (three months ended September 30, 2008, \$12,057). \$2,871 of this loss for the nine months ended September 30, 2008 related to non commercial sales and has been capitalized to mineral interest, (three months to September 30, 2008 \$nil). See note 5(c) for details of commodity price risk.

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### 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 nine months ended September 30, 2008 was \$7,553, three months ended September 30, 2008, recovery of \$3,383, (nine months ended September 30, 2007, \$4,618, three months ended September 30, 2007, \$2,122).

#### b) Termination benefits

On June 9, 2008 the former President and CEO tendered his resignation. General and administrative expenses for the three and nine months ended September 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 for the nine months ended September 30, 2008 include termination entitlements of \$5,103 (including employment taxes) and accelerated stock-based compensation charges of \$2,781, which is included in the stock-based compensation charges referenced above, (three months ended September 30, 2008 recovery of \$167 in respect of termination entitlements and income of \$1,594 in respect of stock based compensation charges, these were recovery items due to the reduction in share price during this period). These termination benefits were paid in early October.

Subsequent to September 30, 2008 three senior managers pursuant to employment and change of control agreements are entitled to contractual termination benefits upon their resignation. An additional \$5,630 will be accrued in the fourth quarter in respect of contractual termination benefits and \$3,467 in respect of stock-based compensation charges.

### 17. OTHER (EXPENSES) INCOME

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Foreign exchange losses	(5,232)	(7,541)	(10,712)	(16,341)
Net derivative losses (note 11)	(805)	-	(2,663)	-
	<b>(6,037)</b>	<b>(7,541)</b>	<b>(13,375)</b>	<b>(16,341)</b>

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### 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 engineering and procurement 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.

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### 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:

	<b>Nine months September 30, 2008</b>	Nine months ended September 30, 2007
<b>Purchases from related parties</b>		
KOL	6,982	4,918
EGMF	23,097	3,212
Malta Forrest	90	-
Bateman	18,075	-
DEM	33,670	-
Gécamines	4,256	-
<b>Sales to related parties</b>		
DEM	655	-
Glencore	106,828	-
	<b>As at September 30, 2008</b>	As at December 31, 2007
<b>Amounts owed to related parties</b>		
KOL	6,036	2,448
EGMF	2,628	3,410
Bateman	2,254	-
DEM	4,539	-
Glencore (convertible debt)	160,358	149,518
<b>Amounts owed by related parties</b>		
Glencore	8,449	-

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

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### 19. COMMITMENTS

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. The original combined project was 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 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 at September 30, 2008 the Company had capital contracts with a value of \$414 million in respect of Phases II, III, IV and V

The Company has commenced a review of capital expenditures with a focus on optimizing its development program considering current market conditions.

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.

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.

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### 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:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>	September 30	<b>September 30</b>	September 30
	<b>2008</b>	2007	<b>2008</b>	2007
Loss before income taxes reflected in the consolidated statements of operations	<b>(39,446)</b>	(16,314)	<b>(80,396)</b>	(35,602)
Expected income tax recovery at				
Canadian statutory rates	<b>11,637</b>	4,469	<b>23,717</b>	11,435
Effect of differences in foreign tax rates	<b>4,093</b>	1,563	<b>15,788</b>	1,594
Effect of change in temporary differences not recognized	<b>3,415</b>	(2,767)	<b>1,765</b>	(7,110)
Permanent differences	<b>534</b>	(1,666)	<b>1,149</b>	(4,454)
Adjustment in respect of prior years	<b>18</b>	(21)	<b>18</b>	(21)
Tax benefit of losses not recognized	<b>(19,069)</b>	(1,655)	<b>(28,180)</b>	(1,660)
Recovery of (provision for) income taxes:	<b>628</b>	<b>(77)</b>	<b>14,257</b>	(216)

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

	<b>September</b>	December
	<b>30, 2008</b>	31, 2007
<b>Future income tax assets</b>		
Exploration and development	<b>28,064</b>	7,233
Non-capital losses carried forward	<b>34,408</b>	4,127
Other	<b>16,453</b>	1,874
	<b>78,925</b>	<b>13,234</b>
Less: valuation allowance	<b>(52,714)</b>	(12,633)
Total future tax assets	<b>26,211</b>	<b>601</b>
<b>Future income tax liabilities</b>		
Exploration and development	<b>(558,679)</b>	-
Property, plant and equipment	<b>(17,104)</b>	-
Total future tax liabilities	<b>(575,783)</b>	-
<b>Net future tax</b>	<b>(549,572)</b>	<b>601</b>

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

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### **20. INCOME TAXES (Continued)**

The future income tax asset of \$26,211 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 \$52,714 as at September 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 \$570,689 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 \$558,679 shown above.

Gross non-capital losses carried forward of \$17,427 expired on the acquisition of Nikanor PLC. As at September 30, 2008, the Company had gross non-capital losses available for future use expiring 2013 and thereafter of \$118,545.

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### 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
<b>As at September 30, 2008</b>			
Cash, cash equivalents and restricted cash	177,088	1,169	<b>178,257</b>
Other assets	10,943	2,840,195	<b>2,851,138</b>
<b>Total Assets</b>	<b>188,031</b>	<b>2,841,364</b>	<b>3,029,395</b>
<b>As at December 31, 2007</b>			
Cash, cash equivalents and restricted cash	99,586	1,128	<b>100,714</b>
Other assets	25,232	322,876	<b>348,108</b>
<b>Total Assets</b>	<b>124,818</b>	<b>324,004</b>	<b>448,822</b>
<b>Three months ended September 30, 2008</b>			
Revenue	-	57,649	<b>57,649</b>
Net loss	(6,788)	(32,030)	<b>(38,818)</b>
General and administrative	(5,022)	(17,663)	<b>(22,685)</b>
Interest income	1,900	203	<b>2,103</b>
Debenture interest	(4,627)	-	<b>(4,627)</b>
Recovery of income taxes	-	628	<b>628</b>
<b>Nine months ended September 30, 2008</b>			
Revenue	-	196,652	<b>196,652</b>
Net loss	(4,404)	(61,735)	<b>(66,139)</b>
General and administrative	(29,327)	(24,776)	<b>(54,103)</b>
Interest income	13,649	1,351	<b>15,000</b>
Debenture interest	(13,915)	-	<b>(13,915)</b>
Recovery of income taxes	73	14,184	<b>14,257</b>

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

# KATANGA MINING LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Three and nine months ended September 30, 2008 and 2007

### 21. SEGMENTED INFORMATION (Continued)

	Corporate	Operations in Democratic Republic of Congo	Total
<b>Three months ended September 30, 2007</b>			
Net loss	(17,455)	1,064	<b>(16,391)</b>
General and administrative	(3,368)	-	<b>(3,368)</b>
Interest income	736	-	<b>736</b>
Debenture interest	(6,141)	-	<b>(6,141)</b>
Provision for income taxes	-	(77)	<b>(77)</b>
<b>Nine months ended September 30, 2007</b>			
Net loss	(36,965)	1,147	<b>(35,818)</b>
General and administrative	(9,829)	-	<b>(9,829)</b>
Interest income	4,613	-	<b>4,613</b>
Debenture interest	(14,045)	-	<b>(14,045)</b>
Provision for income taxes	-	(216)	<b>(216)</b>

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

### 23. CONTRACT REVIEW

The long-term economic viability of the Company is dependent upon the availability of sufficient economically recoverable ore reserves and the ongoing renewal of mining and other licences. The mining concessions 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 mineral concession or renegotiation of the joint venture contracts 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.