

# **KATANGA MINING LIMITED**

**September 30, 2008**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following discussion and analysis is management's assessment of the results of operations and financial condition of Katanga Mining Limited ("Katanga" or the "Company") and should be read in conjunction with its 2007 audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts unless otherwise indicated are in United States dollars. This information has been prepared as of November 6, 2008. Katanga's common shares, warrants and notes trade on the TSX Exchange under the symbols "KAT" "KAT.WT" and "KAT.NT" respectively. Its most recent filings are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the internet at [www.sedar.com](http://www.sedar.com).*

### ***1. Company Overview***

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

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

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

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

## **2. Highlights and Outlook**

### **Highlights for the three months ended September 30, 2008**

- Production ramp up continued during the quarter, with production of 6,812 tonnes of copper cathode, 356 tonnes of cobalt metal, and 14,588 tonnes of concentrate.
- Total net sales for the quarter increased by 18% to \$57.6 million, comprising \$22.5 million (4,197 tonnes) for copper cathode, \$17.9 million (290 tonnes) for cobalt metal, and \$17.2 million (6,847 tonnes) for cobalt concentrate sales. These amounts were net of a \$9.2 million decrease for the mark to market loss relating to provisionally priced copper, cobalt and cobalt concentrate.
- Net loss for the quarter of \$38.8 million (\$0.19 per share), compared with a net loss for the third quarter of 2007 of \$16.4 million (\$0.21 per share).
- The appointment during the quarter of Steven Isaacs as interim Chief Executive Officer and Tim Henderson as interim Chief Operating Officer were announced.

### **Outlook**

- Production for 2008 is forecast to total 22,000 tonnes of copper cathode, 900 tonnes of cobalt metal, and 43,500 tonnes of cobalt concentrate, containing 2,600 tonnes of payable copper and 1,200 tonnes of payable cobalt.
- The Company has commenced a review of capital expenditure commitments with a focus on optimizing its development program considering current market conditions. This review is targeting the maximization of operating cash flows and reducing project capital expenditure requirements, while preserving optionality for development of the Company's world class asset base. While the review is progressing capital expenditure for Phase 2 of the Kamoto rehabilitation project will continue.
- Discussions with Gécamines to complete the amended KCC Joint Venture Agreement continue to progress, using the framework established in the Memorandum of Understanding announced on August 5, 2008.

### 3. 2008 Third Quarter Discussion

#### *Operating Results*

	Three Months Ended		
	September 30, 2008 \$'000	September 30, 2007 \$'000	September 30, 2006 \$'000
Sales revenue	57,649	-	-
Cost of sales*	(65,849)	-	-
	(8,200)	-	-
Other expenses	(28,722)	(10,909)	(3,537)
Debtenture interest	(4,627)	(6,141)	-
Interest income	2,103	736	888
Income tax recovery/(provision)	628	(77)	-
Net loss	(38,818)	(16,391)	(2,649)

*\*Includes royalties and transportation costs and depreciation*

The Company reported a net loss for the three months ended September 30, 2008 of \$38.8 million, \$0.19 per share, compared with a net loss for the third quarter of 2007 of \$16.4 million, \$0.21 per share.

- Revenues of \$57.6 million were generated from the sale of copper cathode \$22.5 million (4,197 tonnes), cobalt metal \$17.9 million (290 tonnes) and cobalt concentrate \$17.2 million (6,847 tonnes) for the quarter. These amounts were net of a \$9.2 million decrease for the mark to market loss relating to provisionally priced copper, cobalt and cobalt concentrate. Sales exposed to the fall in price were marked to market at the September 30 rate of \$6,399/t for copper (2,749 tonnes) and \$2,897/t for cobalt concentrate (3,363 tonnes).
- The cost of sales for the third quarter totaled \$65.8 million and comprised of:
  - Selling costs of \$11.6 million, including transport costs, government royalties (2% of gross sales revenue less transport costs) and Gécamines lease payments (2% of gross sales revenue less transport costs).
  - \$26.4 million for costs directly attributable to mining operations (KTO, T-17 and Tilwezembe), and processing operations (Kamoto and Kolwezi concentrators and Luilu processing plant).
  - Site infrastructure and support costs of \$21.6 million for site operating and maintenance costs not directly attributable to individual operations.
  - Depreciation of \$6.2 million, with \$3.8 million for amortization of mineral interests and \$2.4 million of depreciation for property plant and equipment.
- The other expenses for the quarter ended September 30, 2008 totaled \$28.7 million (third quarter of 2007 - \$10.9 million). These included:
  - General administrative expenses of \$22.7 million (third quarter of 2007 - \$3.4 million) representing:
    - The cost to maintain the corporate office function in London and South Africa \$8.4 million (2007 - \$1.3 million);

- The indirect costs incurred for the quarter in relation to operating both KCC and DCP of \$11.3 million (2007 - \$nil). No such costs were expensed in 2007 as the operations were not yet in commercial production;
    - One-time costs and provisions for taxes and penalties during the quarter were \$6.4 million (2007 - \$nil) as a result of a dispute with the DRC tax authorities relating to compensation of our expatriate staff;
    - A stock-based compensation credit of \$3.4 million (2007 – charge of \$2.1 million) due the revaluation of the restricted stock units to reflect the reduction in the company share price for the quarter of \$8.65 per share (to \$4.82 per share) and the cancellation of 225,000 options.
  - Foreign exchange loss of \$5.2 million (third quarter of 2007 – \$7.5 million). The loss in the third quarter of 2008 is primarily due to losses on cash balances held in Euros, Rand and Sterling due to the strengthening of the US dollar in the quarter. This is net of a \$3.2 million unrealized gain arising on the translation into US\$ of the CAD\$ denominated debentures. In the third quarter of 2007 there was an unrealized loss of \$8.0 million recognized on the CAD\$ denominated debentures.
  - Net derivative loss of \$0.8 million (2007 - \$nil) due to unfavourable movements in the US\$ exchange rate against derivative financial instruments held in Euros and Yen.
- The interest expense in both the third quarter of 2008 of \$4.6 million and 2007 of \$6.1 million relates to the public debentures outstanding. Interest on the convertible debt is being capitalized to mineral interests.
- Interest income of \$2.1 million and \$0.7 million for each of the third quarters of 2008 and 2007, respectively, were earned on non-utilized funds. The increase in the interest income earned during the third quarter of 2008 is a result of the cash acquired in the Nikanor acquisition.

### Cash Flows

Cash Flows from (used in):	Three Months Ended		
	September 30, 2008 \$'000	September 30, 2007 \$'000	September 30, 2006 \$'000
Operating activities	(59,532)	(6,711)	(921)
Financing activities	-	6,062	351
Investing Activities	(107,824)	(62,329)	(8,165)

- For the three months ended September 30, 2008, cash utilized on operating activities was \$59.5 million (2007 - \$6.7 million). A significant variance between the quarters is the commencement of commercial production effective June 1, 2008. As a development stage entity, changes in working capital were included in investing activities, as they related to project expenditures; following commencement of commercial production, they are now part of operating activities. The cash used to fund operating activities was primarily spent on (and offset by):
  - The net loss for the period of \$38.8 million (2007 - \$16.4 million).
  - Adjusting items including:
    - Stock-based compensation net outflow of \$3.5 million (2007 – inflow of \$2.0 million);
    - A foreign exchange loss of \$5.2 million (2007 - \$7.7 million);
    - Debenture interest net outflow of \$3.9 million (2007 – inflow of \$5.9 million) the interest on the debenture is payable in January and July and the first payment was made in January 2008;
    - Net derivative loss of \$0.8 million (2007 - \$nil);
    - Depreciation of \$6.3 million (2007 - \$nil) which was historically capitalized before commercial production and shown as investing activities.
  - A decrease in trade receivables of \$10.3 million (2007 - \$nil) primarily related to movement in the mark to market provision reducing receivables by \$12.1 million.
  - An increase of \$11.1 million in prepaid and other current assets (2007 - \$nil) due to the ramp up in production activity.
  - Increase in inventories of \$24.1 million, (2007 increase in inventories of \$5.9 million) as a result of an increase in consumable inventory of \$5.2 million (2007 - \$5.9 million) to meet the demands of increased production in the quarter. Also included is an increase in product inventory of \$18.9 million (2007 - \$nil).
  - A decrease in accounts payable of \$0.2 million (2007 - \$nil).
- Investing activities in the three months ended September 30, 2008 totaled \$107.8 million (2007 - \$62.3 million) and relate to:
  - Costs incurred on phase II and V of the rehabilitation project of \$106.5 million (2007 - \$62.3 million all in relation to phase I).
  - Acquisition costs of \$1.3 million were settled.
- There were no financing activities in the three months ended September 30, 2008 and \$6.1 million in 2007 in relation to the issuance of common shares on exercised options (\$1 million) and warrants (\$5.1 million).

## **Production**

The process of producing copper cathode, cobalt metal and concentrate is achieved through distinct processes which are described and reviewed below. The production statistics for each of these areas is presented in item 16 – Summary of Quarterly Results.

### ***Underground***

During the quarter ended September 30, 2008, 152,520 tonnes of ore and 14,478 tonnes of waste were mined from underground. Since underground production started in the quarter ended September 30, 2007, every quarter has seen an increase in production. An average copper grade of 3.82% was achieved in 2008 (2007 - 2.60%) and a cobalt grade of 0.42% (2007 – 0.46%). Quarterly underground production is not expected to increase significantly in the next quarter, as the initiatives (as detailed below) initially undertaken in the third quarter will be ongoing throughout the fourth quarter:

- Stocking of consignment stores to improve fleet maintenance.
- Signing of a maintenance service contract with Atlas Copco in October.
- Recruitment and training of operators for the trackless mining fleet.
- Improvements to the dewatering of the development faces.
- Implementation of new roof support processes.

### ***Open Pit (T17)***

At T17, tonnes mined continue to be ahead of forecasts with 1,320,606 tonnes of waste removed in the quarter ended September 30, 2008 and 151,044 tonnes of ore produced with a copper grade of 1.53% and a cobalt grade of 0.98%. The cobalt grade is above the forecast of 0.66% whereas the copper grade is currently below the forecast of 1.91%.

### ***Kamoto Concentrator***

The Kamoto concentrator processes ore from KTO underground and T17 open pit. In the quarter ended September 30, 2008, it processed 269,997 tonnes of ore from which 27,690 tonnes of concentrate were produced. The capacity of the concentrator exceeds the current mine production capability and continues to meet planned availability and recovery.

### ***Luilu processing plant***

In the current quarter, 6,812 tonnes of copper cathode were produced along with 356 tonnes of cobalt metal. Copper production has consistently increased over the last three quarters as improvements have been made to the plant, also resulting in significant improvements in cobalt production during the third quarter. While the implementation of measures to increase capacity was successful in the third quarter, we expect fourth quarter copper production to be less than in the third quarter due to constraints from the mining operation. However, we expect fourth quarter cobalt production to be slightly higher than in the third quarter.

### ***Open Pit (Tilwezembe)***

At Tilwezembe, the mining of ore exceeded forecast with 269,897 tonnes, mined, and waste removal of 1,333,922 tonnes. While the cobalt grade of 1.01% exceeded forecast of 0.80%, the copper grade of 1.39% was below forecast of 1.80%. Analysis of the new mineral resource model received at the end of June is ongoing to ensure the resource is being exploited in the most efficient manner.

### ***Kolwezi Concentrator***

The Kolwezi concentrator processes the ore from the Tilwezembe open pit. In the current quarter, it processed 230,231 tonnes of ore and produced 14,588 tonnes of concentrate. Ore processed for the quarter of 230,231 tonnes was 4% below forecast, however, concentrate production of 14,588 tonnes, was 28% below forecast. Metallurgical performance has been below expectation because of the requirement to effect a low mass pull in order to keep the concentrate grades within specification. To improve the situation, a batch process strategy has been implemented with an independent audit of the Kolwezi concentrator to commence in October. Given the fluctuation of mill head grades and commodity prices there is ongoing monitoring of performance of the Kolwezi concentrator in order to maximize profitability.

#### **4. 2008 Year to Date Discussion**

##### ***Operating Results***

	Nine months Ended		
	September 30, 2008 \$'000	September 30, 2007 \$'000	September 30, 2006 \$'000
Sales revenue	196,652	-	-
Cost of sales*	(210,655)	-	-
	(14,003)	-	-
Other expenses	(67,478)	(26,170)	(3,537)
Debt interest	(13,915)	(14,045)	-
Interest income	15,000	4,613	888
Income tax recovery/(provision)	14,257	(216)	-
Net loss	(66,139)	(35,818)	(2,649)

*\*Includes royalties and transportation costs and depreciation*

The Company reported a net loss for the nine months ended September 30, 2008 of \$66.1 million, \$0.34 per share, compared with a net loss for the nine months ended September 30, 2007 of \$35.8 million, \$0.46 per share.

- Sales revenues of \$196.7 million were achieved with copper cathode \$42.0 million (6,466 tonnes), cobalt metal \$20.5 million (320 tonnes) and cobalt concentrate \$134.2 million (34,374 tonnes). The concentrate in inventory produced prior to the Nikanor acquisition was initially recorded at fair value. Accordingly, cost of sales includes \$68.9 million previously assigned to the fair value of the concentrate ore.
- The cost of sales for the year to date are \$210.7 million made up of:
  - Selling costs of \$33.2 million, including transport costs, government royalties (2% of gross sales revenue less transport costs) and Gécamines lease payments (2% of gross sales revenue less transport costs).
  - \$66.3 million for costs directly attributable to mining operations (KTO, T-17 and Tilwezembe), and processing operations (Kamoto and Kolwezi concentrators and Luilu processing plant).

- Site infrastructure and support \$31.9 million for site operating and maintenance costs not directly attributable to individual operations.
  - Depreciation \$8.9 million with \$5.1 million for amortization of mineral interest and \$3.8 million of depreciation for property plant and equipment.
  - Fair value adjustment for concentrate \$68.9 million.
  - Loss on non delivery of cobalt \$1.5 million.
- The other expenses for the nine months ended September 30, 2008 totaled \$67.5 million (2007 - \$26.2 million). These included:
    - General administrative expenses of \$54.1 million (nine months ended September 30, 2007 - \$9.8 million) representing.
      - The cost to maintain the corporate office function in London and South Africa \$16.6 million (2007 - \$5.2 million);
      - The indirect costs incurred during the nine months ended September 30, 2008 in relation to operating both KCC and DCP of \$15.9 million (2007 - \$nil). No such costs were expensed in 2007 as the operations were not in commercial production;
      - One-time costs for taxes and penalties for the nine months ended September 30, 2008 were \$7.4 million (2007 - \$nil) as a result of a dispute with the DRC tax authorities relating to compensation of our expatriate staff;
      - Stock-based compensation of \$4.8 million (2007 - \$4.6 million) excluding \$2.8 million related to resignation of CEO as detailed below;
      - And a provision of \$7.9 million for contractual termination entitlements in relation to the resignation of the current President and CEO (which includes \$2.8 million related to share options and restricted stock units;
      - Road refurbishment costs of \$1.5 million (2007 - \$nil).
    - Foreign exchange loss of \$10.7 million (2007 - \$16.3 million) relating to losses on the translation of Euros, Rand and Sterling deposits acquired from Nikanor. This is net of a \$6.9 million unrealized gain arising on the translation into US\$ of the CAD\$ denominated debentures (2007 unrealized loss - \$18.6 million). Any unrealized gain or loss on the debentures will be realized on their maturity on November 30, 2013.
    - Net derivative loss of \$2.7 million (2007 - \$nil) due to unfavourable movements in the US\$ exchange rate against derivative financial instruments exposed to exchange rate fluctuations in Euros, Yen and Chinese Renminbi.
- The interest expense in the first nine months of 2008 of \$13.9 million and 2007 of \$14.0 million relates to the public debentures outstanding. Interest on the convertible debt is being capitalized to mineral interests.
- Interest income of \$15.0 million and \$4.6 million for the first 9 months of 2008 and 2007, respectively, were earned on non-utilized funds. The increase in the interest income earned during the first nine months of 2008 is a result of the cash acquired in the Nikanor acquisition.

## Cash Flows

Cash Flows from (used in):	Nine months Ended		
	September 30, 2008 \$'000	September 30, 2007 \$'000	September 30, 2006 \$'000
Operating activities	(44,649)	(10,067)	(921)
Financing activities	-	6,239	133,468
Investing Activities	138,516	(155,584)	(10,762)

- For the nine months ended September 30, 2008 cash utilized on operating activities was \$44.6 million (2007 cash used - \$10.1 million). A significant variance between the periods is the commencement of commercial production effective June 1, 2008. As a development stage entity, changes in working capital were included in investing activities, as they related to project expenditures; following commencement of commercial production, they are now part of operating activities. The cash used to fund operating activities was primarily spent on (and offset by):
  - The net loss for the period of \$66.1 million (2007 - \$35.8 million).
  - A non-cash cost of \$68.9 million related to the write up to fair value of the concentrate inventory acquired as part of the Nikanor acquisition.
  - A foreign exchange loss of \$10.7 million (2007 - \$18.1 million).
  - An increase in trade receivables of \$1.5 million (2007 - \$nil) in relation to copper, cobalt and concentrate sales.
  - An increase in inventories of \$41.6 million, (2007 - \$10.2 million) as a result of \$10.7 million increase in consumable stores (2007 - \$10.2 million) required to sustain the higher levels of production and a \$30.9 million increase in product inventory (2007 - \$nil) resulting from the higher production levels.
  - A decrease in accounts payable of \$14.3 million (2007 - \$nil).
- Investing activities for the nine months ended September 30, 2008 totaled \$138.5 million (2007 - \$(155.6) million) and relates to:
  - Costs incurred on the completion of Phase I and the continuing costs of phases II and V of the rehabilitation project of \$289.9 million (2007 - \$155.6 million).
  - Net cash acquired on the acquisition of Nikanor, net of acquisition costs, of \$428.4 million made up of:
    - Cash acquired \$911.2 million
    - Distribution to Nikanor shareholders \$(446.1) million
    - Acquisition costs \$(36.7) million
- There were no financing activities in the nine months ended September 30, 2008 and \$6.2 million in 2007 from the issuance of common shares upon the exercise of stock options, of \$1.1 million and warrants \$5.1 million.

## **Production**

The process of producing copper cathode, cobalt metal and concentrate is achieved through distinct processes which are described and reviewed below. The production statistics for each of these areas is presented in item 16 – Summary of Quarterly Results.

### ***Underground***

During the nine months ended September 30, 2008, 395,973 tonnes of ore and 51,718 tonnes of waste were mined from the underground. Since production started underground in the quarter ended September 30, 2007, every quarter has seen an increase in production.

### ***Open Pit (T17)***

At T17, tonnes mined continue to be ahead of original forecasts with 4,223,749 tonnes of waste removed for the nine months and 349,890 tonnes of ore produced. The cobalt grade is higher than originally expected whereas the copper grade is currently lower than forecast.

### ***Kamoto Concentrator***

The Kamoto concentrator processes ore from the underground and T17 open pit. In the nine months ended September 30, 2008 it processed 695,142 tonnes of ore from which 73,419 tonnes of concentrate was produced. The capacity of the concentrator exceeds the current mine production capability and continues to meet planned availability and recovery.

### ***Luilu processing plant***

In the nine months ended September 30, 2008, 16,071 tonnes of copper cathode was produced and 476 tonnes of cobalt metal. Copper production has consistently increased over the last three quarters as improvements have been made to the plant. Cobalt production commenced in May with monthly increases in production since the initial construction of the cobalt circuit was complete.

### ***Open Pit (Tilwezembe)***

Tonnes mined during the first nine months of 2008 were 4,930,850 tonnes of waste and 477,247 tonnes of ore. While the concentrator was shut down at the end of January through to April 2008, pre-stripping continued to be carried out. The benefits of this work were realized in the third quarter with a below forecast strip ratio.

### ***Kolwezi Concentrator***

The Kolwezi concentrator processes the ore from the Tilwezembe open pit. In the nine months ended September 30, 2008, it processed 466,613 tonnes of ore and produced 31,060 tonnes of concentrate. This was less than forecast with the concentrator closed between January 23, 2008 and April 9, 2008 for safety and performance related improvements, and ongoing quality issues with mining/mill head grades.

## 5. Balance Sheet Discussion

	September 30, 2008	December 31, 2007
	\$000	\$000
<b>Assets</b>		
Cash, cash equivalents and restricted cash	178,257	100,714
Other current assets	147,131	27,799
Property, plant and equipment	2,675,730	298,262
Other non-current assets	28,277	22,047
	<b>3,029,395</b>	<b>448,822</b>
<b>Liabilities</b>		
Current liabilities	103,289	67,145
Convertible debt	160,358	149,518
Debentures payable	112,284	118,012
Other long-term liabilities	578,282	-
	<b>954,213</b>	<b>334,675</b>
<b>Shareholders' equity</b>	<b>2,075,182</b>	<b>114,147</b>

### *Cash and Cash Equivalents / Liquidity*

The cash balance increased to \$178.3 million from \$100.7 million primarily as a result of the net cash acquired upon the acquisition of Nikanor \$428.4 million offset by \$289.9 million spent on capital expenditures as part of the rehabilitation project, cash outflows from operating activities of \$44.6 million, and foreign exchange losses of \$16.3 million.

### *Other Current Assets*

Other current assets increased to \$147.1 million from \$27.8 million primarily because of:

- an increase in trade receivables of \$19.8 million as a result of concentrate sales;
- an increase in inventory of consumables of \$10.7 million and product of \$70.3 million as commercial production commenced in 2008;
- An increase in prepaid expenses and other assets of \$18.5 million due to the ramp up of production activity.

### *Property, Plant and Equipment*

Property, plant and equipment increased to \$2,675.7 million from \$298.3 million primarily due to the acquisition of Nikanor. The fair value of the KOV open pit was considered to be equal to the overall purchase price of \$2,010 million, less the fair value of the other net assets acquired, which included \$230.1 million of property plant and equipment. This gave rise to a fair value for the KOV deposit of \$1,833.4 million, along with a related liability for future income taxes of \$570.7 million and \$230.1 million of other property, plant and equipment acquired. The additional increase relates to the continuing costs of phase II and V of the rehabilitation project.

### ***Other Non-current Assets***

Other non-current assets increased by \$6.2 million to \$28.3 million. This is primarily the future income tax asset of \$25.6 million in relation to losses available to be carried forward to reduce future income taxes. Deferred acquisition costs relating to the acquisition of Nikanor of \$18.9 million were previously included in non-current assets as at December 31, 2007. These have now been included in property, plant and equipment as at September 30, 2008. There was also a \$0.5 million decrease for amortization of the T-17 mobilization cost.

### ***Current Liabilities***

Current liabilities have increased by \$36.1 million to \$103.3 million. This is the result of an increase in accounts payable and accrued liabilities of \$54.3 million. This increase is attributable to increased project and operational activity. In addition, there is a current derivative liability increase of \$0.6 million which is related to two DCP contracts which are denominated in currencies other than U.S. dollars or the functional currency of the home country of the contracting party. The accounting requirements are to mark these contracts to market for any change in the remaining U.S. dollar value of the contract. This is offset by a decrease in the accrued acquisition costs of \$15.4 million which have now been paid and a reduction in the liability for restricted stock units of \$3.4 million mainly due to the change in share price.

### ***Convertible Debt***

Convertible debt has increased by \$10.9 million to \$160.4 million as a result of capitalized interest of \$9.9 million, plus accretion of the debt of \$1.0 million.

### ***Debentures Payable***

The decrease in debentures payable of \$5.7 million is primarily the result of a reduction in the liability (as a result of an unrealized foreign exchange gain) of \$6.9 million on the revaluation of the CDN dollar denominated debentures into US dollars. This was offset by accretion of the debt of \$1.2 million.

The Company's outstanding debentures are due November 20, 2013. Interest on the debentures is payable semi-annually in arrears with equal installments on January 1 and July 1 of each year, with interest payable from the closing date to June 30, 2007 capitalized and payable on maturity and cash interest payments commencing January 1, 2008.

### ***Other long-term liabilities***

Other long-term liabilities include \$575.8 million related to the future income taxes recorded for the future income tax liability on the fair value assigned to the KOV open pit at the expected tax rate of 30%. Also included in other long-term liabilities at September 30, 2008 is \$2.5 million relating to an asset retirement obligation recorded on the acquisition of Nikanor.

### ***Off-Balance Sheet Arrangements***

As at September 30, 2008, the Company had no off-balance sheet arrangements.

## **6. Contractual Obligations and Commitments**

As a result of the acquisition of Nikanor (refer Note 2 of the company's interim financial statements), 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 \$413.7 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. While this review is progressing capital expenditure on Phase II, for which \$58.9 million has been committed, will continue.

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 \$1.0 million for a period of five years, commencing September 19, 2006, with an option to renew for a further five years.

## **7. Changes in 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.

#### 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.

### **8. Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the financial statements include Katanga’s estimate of recoverable value on its investment in the redevelopment of the Kamoto Joint Venture Assets, fair value estimates for the assets and liabilities used to account for the acquisition of Nikanor, fair value estimates for stock options and warrants, the fair value of the Glencore convertible debt, the residual value of the equity portion of the Glencore convertible debt, and estimated lives of depreciable assets. These estimates involve considerable judgment and are, or could be, affected by significant factors that are beyond Katanga’s control.

Katanga’s recorded value of its mineral interests associated with the redevelopment of the Kamoto Joint Venture Assets is based on historical costs. The cost of acquisition of Nikanor was allocated to the net assets acquired based on fair values. The carrying values of these assets are expected to be recovered in the future. Katanga’s recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. Katanga is in an industry that is exposed to a number of risks and uncertainties, including political risk, exploration risk, development risk, commodity price risk, operating risk, ownership risk, funding risk, currency risk and environmental risk. Bearing these risks in mind, Katanga has assumed reasonable world commodity prices will be achievable, as will costs used in studies for projected construction and mining operations. All of these assumptions are potentially subject to significant change, which are out of Katanga’s control, however such changes are not determinable. Accordingly, there is always the potential for a material adjustment to the value assigned to these assets.

The fair value of the stock options and warrants is calculated using an option pricing model that takes into account the exercise price, the expected life of the option/warrant, expected volatility of

the underlying shares, expected dividend yield and the risk free interest rate for the term of the option.

## 9. Outstanding Share Data

### *Summary of Outstanding Securities*

(a) Authorized: 1,000 common shares, par value \$12.00 each, and 300,000,000 common shares, par value \$0.10 each.

(b) Issued:

	<b>Number of Shares</b>
<b>Opening – December 31, 2005</b>	20,163,475
Exercise of warrants	1,747,500
Issued for cash	21,000,000
Exercise of options	125,000
Common share adjustment	1
Shares issued to acquire KFL	<u>35,001,500</u>
<b>Balance – December 31, 2006</b>	78,037,476
Exercise of options	216,667
Exercise of warrants	<u>633,600</u>
<b>Balance – December 31, 2007</b>	78,887,743
Performance shares issued to former Nikanor employees	196,923
Shares issued to acquire Nikanor	<u>127,217,697</u>
<b>Balance – September 30, and November 6, 2008</b>	<u><u>206,302,363</u></u>

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

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

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

## **10. Other Information**

### ***Material Transactions***

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

### ***Use of Financial Instruments***

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

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

#### **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 \$34.4 million 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 \$0.3 million, (three months ended September 30, 2008, loss of \$0.5 million) 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 \$3.2 million has reduced to \$0.6 million at September 30, 2008. These payments are booked at their fair values at the inception of the derivative contracts, consequently an amount of \$5.0 million has been offset against payments made in the nine month period to September 30, 2008. In addition a loss of \$2.4 million 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 \$0.3 million loss).

### ***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.

**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 of the company’s interim financial statements).

**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 ended 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	-

## **11. Health, Safety, Community and Environment**

The Company recognizes the critical importance of providing employees with a safe and healthy work environment. The Company is actively implementing policies, standards, training, audit protocols and health, safety, social and environmental (“HSSE”) reporting system across its operation. This includes emergency response preparedness and training as well as job task analysis and relevant training.

An extensive Environmental & Social Impact Assessment (“ESIA”) is underway with a draft ESIA available late 2008, and the final report together with Environmental & Social Management plans will be published in mid 2009. There is a comprehensive public disclosure and consultation process being conducted as part of the ESIA as well as regular dialogue with the surrounding communities. Feedback from this communication is continually integrated into the Company’s social and community development programs, which focus on agriculture, health, education and job creation.

## **12. 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 Minister 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 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 termination of the current operating agreement with KOL.

### **13. Disclosure Controls**

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational activities. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures as of September 30, 2008 and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. The management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

### **14. Risk Factors**

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.

## ***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 \$0.2 million.

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 \$1.2 million.

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.

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 \$0.3 million 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 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 \$0.3 million 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.

## **15. Forward Looking Statements**

This annual report may contain forward-looking statements, including predictions, projections and forecasts. Forward-looking statements include, but are not limited to, statements with respect to exploration results, the future price of copper and cobalt, the estimation of mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production, costs of production, anticipated budgets and exploration expenditures, capital expenditures, costs and timing of the development of new deposits, the success of exploration activities generally, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of exploration and mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of any pending litigation. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or describes a “goal”, or variation of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, future events, conditions, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, prediction, projection, forecast, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the actual results of current exploration activities; actual results and interpretation of current reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of copper and cobalt; possible variations in ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of exploration, development or construction activities, as well as those factors disclosed in the company's publicly filed documents. Although Katanga has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## 16. Summary of Quarterly Results

The following table sets out a summary of the quarterly results for the Company for the last eight quarters:

	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3
<b>Statement of Operations and Deficit</b>								
(millions except where indicated)								
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90.2	\$ 48.9	\$ 57.6
Cost of sales*	-	-	-	-	-	105.0	32.6	65.8
Total revenues less cost of sales	-	-	-	-	-	(14.8)	16.3	(8.2)
General administrative and other expenses	2.5	3.9	11.4	10.9	7.8	19.9	26.2	22.7
Debenture Interest	1.6	3.8	4.1	6.2	5.0	4.7	4.6	4.6
Interest income	(2.0)	(2.3)	(1.5)	(0.7)	(0.1)	(7.1)	(5.8)	(2.1)
Net Loss	2.1	5.4	14.0	16.4	12.0	17.4	9.9	6.0
Loss per common share	\$ 0.02	\$ 0.07	\$ 0.18	\$ 0.21	\$ 0.15	\$ 0.10	\$ 0.05	\$ 0.19
Realized copper price (per lb)**	-	-	-	-	-	\$ 3.58	\$ 3.71	\$ 2.38
Realized cobalt price (per lb)	-	-	-	-	-	-	\$ 32.00	\$ 28.03
Realized concentrate price (per tonne)**	-	-	-	-	-	\$ 4,306	\$ 4,301	\$ 2,510
Total copper sold (tonnes)***	-	-	-	-	-	1,996	3,892	4,197
Total copper produced (tonnes)	-	-	-	-	340	3,946	5,314	6,812
Total cobalt sold (tonnes)	-	-	-	-	-	-	30	290
Total cobalt produced (tonnes)	-	-	-	-	-	-	120	356
Total concentrate sold (tonnes)	-	-	-	-	-	19,630	7,897	6,847
Total concentrate produced (tonnes)	-	-	-	-	-	2,903	13,463	14,588
<b>Balance Sheet</b>								
Cash and cash equivalents	\$ 197.0	\$ 166.0	\$ 100.6	\$ 37.9	\$ 100.7	\$ 463.4	\$ 352.5	\$ 178.3
Current assets	201.7	170.7	110.8	54.3	128.5	612.1	476.0	325.4
Mineral interests and other assets	48.4	78.3	143.9	223.2	320.3	2,431.8	2,599.8	2,704.0
Total assets	250.1	249.0	254.7	277.5	448.8	3,043.9	3,075.8	3,029.4
Current liabilities	9.7	12.1	16.5	39.8	67.2	110.2	130.0	103.3
Long-term debt	93.5	94.2	108.0	116.4	267.5	266.4	271.8	272.6
Other long-term liabilities	-	-	-	-	-	554.5	563.0	578.3
Total liabilities	103.2	106.3	124.5	156.2	334.7	931.1	964.8	954.2
Shareholders' equity	146.9	142.7	130.2	121.3	114.1	2,112.8	2,111.0	2,075.2
<b>Cash Flow</b>								
Operating activities	(0.2)	(0.6)	(2.9)	(6.7)	(13.8)	10.9	4.0	(59.5)
Financing activities	96.4	-	0.2	6.1	150.0	-	-	-
Investing activities	(22.2)	(30.5)	(62.6)	(62.3)	(72.8)	362.2	(116.0)	(107.8)

\*Includes royalties and transportation costs and depreciation

\*\*Includes impact of provisionally priced sales which retain exposure to future changes in commodity prices being marked-to-market based on the LME forward rate for copper and LMB spot price for cobalt at the balance sheet date

\*\*\*Sales to June 1, 2008 (3,619 tonnes) were capitalized to mineral interest as they were pre commercial production sales.

The following production information sets out the quarterly results for the company since initial mining began in the quarter ended June 30, 2007.

	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3
<b>Cobalt and Copper Production Statistics*</b>						
<i>Underground Mining</i>						
Waste mined (tonnes)	3,469	4,029	5,972	17,670	19,570	14,478
Ore mined (tonnes)	27,995	42,147	105,367	117,948	125,505	152,520
Copper grade	2.91	2.60	3.86	4.08	3.94	3.53
Cobalt grade	0.44	0.46	0.43	0.37	0.45	0.45
<i>Open Pit Mining</i>						
Waste mined (tonnes)	512,574	1,400,998	1,610,830	1,250,836	1,652,307	1,320,606
Ore mined (tonnes)	-	36,986	63,705	95,055	103,791	151,044
Copper grade	-	1.18	1.18	1.35	1.75	1.53
Cobalt grade	-	0.50	0.50	0.83	0.80	0.98
<i>Concentrator</i>						
Ore processed (tonnes)	-	71,247	84,726	206,615	218,530	269,997
Concentrate produced (tonnes)	-	4,571	8,247	23,786	21,943	27,690
<i>Metallurgical Plant</i>						
Copper produced (tonnes)	-	-	340	3,946	5,314	6,812
Cobalt produced (tonnes)	-	-	-	-	120	356
<b>Concentrate Production Statistics**</b>						
<i>Open Pit Mining</i>						
Waste mined (tonnes)				1,998,161	1,598,767	1,333,922
Ore mined (tonnes)				50,718	156,632	269,897
Copper grade				1.30	1.36	1.39
Cobalt grade				1.39	1.32	1.01
<i>Concentrator</i>						
Ore processed (tonnes)				34,963	201,419	230,231
Concentrate produced (tonnes)				2,903	13,463	14,588
Copper grade in concentrate				11.51	11.72	12.68
Cobalt grade in concentrate				7.03	5.48	3.78

\*Commercial production did not commence until June 1, 2008.

\*\*Concentrate production was acquired from Nikanor Plc and only the production results relating to operations from the acquisition date are shown.