

KATANGA MINING LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008**

KATANGA MINING LIMITED

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

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KATANGA MINING LIMITED

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Katanga Mining Limited were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 2 to the consolidated financial statements.

Management has established a system of internal control over the financial reporting process, which is designed to provide reasonable assurance that relevant and reliable information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and the accompanying Management's Discussion and Analysis for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee which is comprised of a majority of independent non-executive directors assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Signed by

John Ross
Chief Executive Officer

Nick Brodie
Chief Financial Officer

February 5, 2010

Auditors' Report

To the Shareholders of Katanga Mining Limited

We have audited the consolidated balance sheets of Katanga Mining Limited as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

February 5, 2010

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in thousands of U.S. dollars, except per share amounts)

For the years ended December 31,	Note	2009	2008
		\$	\$
Sales revenues	16	285,549	209,991
Cost of sales	16	(245,590)	(245,837)
Royalties and transportation costs		(46,849)	(52,415)
Depreciation and amortization		(28,101)	(16,604)
		(34,991)	(104,865)
Other income (expenses)			
General and administrative		(16,740)	(22,630)
Restructuring expenses - net	17	(14,015)	(108,859)
Impairment of mineral properties and inventories	19	-	(1,460,378)
Debenture interest		(17,214)	(18,426)
Interest income		1,670	16,180
Foreign exchange and other expenses	20	(23,726)	(6,977)
Loss for the year before income taxes		(105,016)	(1,705,955)
(Provision for) recovery of income taxes	23	(2,984)	407,062
Net loss and comprehensive loss for the year		(108,000)	(1,298,893)
Basic and diluted loss per common share		\$(0.09)	\$(6.51)
Weighted average number of common shares outstanding		1,156,333,506	199,535,725

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

KATANGA MINING LIMITED
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of U.S. dollars)

As at December 31,	Note	2009 \$	2008 \$
ASSETS			
Current assets			
Cash and cash equivalents		77,243	31,824
Restricted cash	5	11,455	7,625
Accounts receivable		58,379	-
Inventories	6	92,434	57,180
Prepaid expenses and other current assets		28,180	23,800
		267,691	120,429
Non-current			
Property, plant and equipment	7	1,481,904	1,342,924
Restricted cash	5	2,000	3,000
Other non-current assets		-	4,852
Future income tax assets	23	56	711
		1,751,651	1,471,916
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	122,204	176,497
Unearned revenue		14,600	14,041
Non-hedged derivative financial instruments	12	-	48
Accrued acquisition costs		-	2,232
		136,804	192,818
Long-term			
Convertible debt	3, 11	-	163,848
Debentures payable	9	112,929	94,520
Other long term-liabilities	10	56,291	-
Asset retirement obligations	14	4,964	4,674
Restricted stock units	15	47	66
Future income tax liabilities	23	163,630	163,630
		474,665	619,556
SHAREHOLDERS' EQUITY			
Capital stock	3, 13	190,750	20,644
Warrants	13	5,809	5,809
Contributed surplus	13	2,540,023	2,174,787
Equity component of convertible debt	11	-	2,716
Deficit		(1,459,596)	(1,351,596)
		1,276,986	852,360
		1,751,651	1,471,916

Description of business – Note 1
Commitments – Note 22

Signed by:
Hugh Stoyell (Non-executive Chairman)

Signed by:
Robert G. Wardell (Non-executive Director)

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of U.S. dollars)

Years ended December 31, 2009 and 2008

	Number of shares	Capital stock	Warrants	Contributed surplus	Equity component of convertible debt	Deficit
		\$	\$	\$	\$	\$
Balance at January 1, 2008	78,887,743	7,901	5,809	150,424	2,716	(52,703)
Options vested during the year	-	-	-	13,731	-	-
Performance awards vested during the year	-	-	-	13,335	-	-
Performance awards exercised during the year	215,362	21	-	(21)	-	-
Shares issued on acquisition of Nikanor PLC (note 18)	127,217,697	12,722	-	1,997,318	-	-
Net loss for the year	-	-	-	-	-	(1,298,893)
Balance at December 31, 2008	206,320,802	20,644	5,809	2,174,787	2,716	(1,351,596)
Options vested during the year	-	-	-	5,246	-	-
Performance awards vested during the year	-	-	-	61	-	-
Equity component of refinanced convertible debt	-	-	-	-	5,065	-
Shares issued on conversion of convertible debt	971,023,329	97,102	-	173,133	-	-
Reclassification of equity component of convertible debt	-	-	-	7,781	(7,781)	-
Shares issued in rights offering	718,036,282	71,804	-	173,432	-	-
Shares issued on acquisition of Kamoto Operating Limited	12,000,000	1,200	-	5,583	-	-
Net loss for the year	-	-	-	-	-	(108,000)
Balance at December 31, 2009	1,907,380,413	190,750	5,809	2,540,023	-	(1,459,596)

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

For the years ended December 31,	Note	2009	2008
		\$	\$
Cash flows from operating activities			
Net loss for the year		(108,000)	(1,298,893)
Adjusted for:			
Depreciation and amortization		28,101	16,604
Impairment of mineral properties and inventories	19	-	1,460,378
Non-cash fair value increase in direct operating costs	16	-	68,934
Non-cash restructuring expenses	17	1,411	84,032
Stock-based compensation		2,664	11,257
Debenture interest		1,834	1,137
Unrealized foreign exchange loss		16,931	3,068
Convertible debt accretion		6,197	1,357
Asset retirement obligation accretion		295	122
Net derivative (gain) loss		(48)	2,552
Future income taxes		655	(407,062)
Changes in non-cash working capital:			
Increase in accounts receivable		(58,379)	-
(Increase) decrease in prepaid expenses and other current assets		(651)	11,023
Increase in inventories		(25,171)	(18,047)
(Decrease) increase in accounts payable, accrued liabilities and unearned revenue		(45,421)	18,388
		(179,582)	(45,150)
Cash flows from investing activities			
Additions to property, plant and equipment		(118,084)	(438,564)
Restricted cash		(2,830)	(1,859)
Cash acquired on acquisition of Nikanor PLC, net of acquisition costs	18	-	428,376
		(120,914)	(12,047)
Cash flows from financing activities			
Proceeds from convertible debt		100,000	-
Proceeds from rights offering, net of issue costs and repayment of bridge facility	3	245,226	-
		345,226	-
Increase (decrease) in cash and cash equivalents		44,730	(57,197)
Cash and cash equivalents, beginning of year		31,824	91,948
Effect of exchange rate changes on cash held in foreign currencies		689	(2,927)
Cash and cash equivalents, end of year		77,243	31,824
Supplementary cash flow information			
Interest paid		15,380	17,289
Income taxes paid		1,833	121
Non-cash investing and financing activities			
Additions to property, plant and equipment financed by long-term liabilities	10	56,291	-
Shares issued on conversion of convertible debt	3	270,235	-

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

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

1. DESCRIPTION OF BUSINESS

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

Katanga, through Kamoto Copper Company SARL ("KCC") and DRC Copper and Cobalt Project SARL ("DCP"), is engaged in copper and cobalt mining and related activities. KCC and DCP operate on adjacent properties in the Democratic Republic of Congo ("DRC") and are working to create a major single-site copper and cobalt operation. Pursuant to an amended joint venture agreement signed on July 25, 2009, KCC and DCP will be merged (see note 25 for further explanation of this matter). The merger is conditional on ratification by Presidential decree in the DRC.

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

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

DCP's assets include mining properties, and various oxide open pit resources, the largest of which is the KOV pit. The KOV pit is not yet in commercial production although pre-stripping and de-watering have commenced.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling financial interest. The effects of all transactions between controlled entities are eliminated.

The consolidated financial statements include the Company's wholly-owned subsidiaries and its 75% interests in KCC and DCP.

Foreign Currency translation

The functional currency of the Company is the U.S. dollar. The Company's foreign operations are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the statement of operations for the current period.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period.

Significant areas where management's judgment is applied include, but are not limited to:

- The carrying value of mineral properties and inventories and impairment charges related thereto
- Estimation of asset retirement obligations
- Estimation of future income taxes
- Fair value estimates for stock options, warrants and restricted stock units
- Estimation of the value of the work carried out on terminated contracts for the deferred SX/EW plant
- Estimated useful lives of depreciable assets

While management believes that these estimates and assumptions are reasonable, actual results could vary significantly from these estimates.

Revenue recognition

Revenues are recognized when title, risk and rewards pass to the customer, typically when goods have been delivered to a contractually agreed location. Sales agreements are generally recognized at a provisional price with final prices being determined at a specified future date based on market prices. Changes between the price recorded upon initial recognition of revenue and the final price due to fluctuations in commodity prices result in the existence of an embedded derivative. This embedded derivative is recorded at fair value, with changes in fair value recorded in revenue and accounts receivable, (see note 16).

Lease payments are payable to Gécamines, (2.5%) and royalties to the DRC treasury, (2%) based on net sales receipts. Net sales receipts are defined as gross revenues less permitted deductions (costs related to the transportation, sale, insurance and storage and all applicable taxes). Lease payments and royalties are included within royalties and transportation costs in the consolidated statement of operations and comprehensive loss.

As at December 31, 2009, the Company recognized an unearned revenue balance of \$14,600 (December 31, 2008 - \$14,041) due to advance payments received on future sales and contractual obligations to invoice upon shipment of goods from the mine site. Sales revenue is not recognized until title and ownership has transferred.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. Future income tax assets are recognized to the extent that the likelihood of recovering future income tax assets is considered more likely than not.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per common share

Basic loss per common share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options, warrants and on the conversion of debt, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options, warrants and the conversion of debt. Currently, the effect of potential issuances of shares under options warrants and the conversion of debt would be anti-dilutive and accordingly basic and diluted loss per common share are the same.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

Inventories

Inventories include inventory of supplies, which consists of raw materials and consumables, and product inventories.

Inventory of supplies is valued at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each supply to its present location and condition.

Product inventories include ore in stockpiles, work in progress and finished product (which comprises copper cathode, copper concentrate, cobalt metal and cobalt concentrate). Product inventory is measured at the lower of cost and net realizable value. Cost is calculated as a weighted average cost, including materials, direct labor, other direct costs, production overheads and amortization of property, plant and equipment directly involved in the mining and production processes.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization less any accumulated impairment write downs.

Depreciation and amortization are charged to the statement of operations over the estimated useful lives of the assets on a units-of-production or straight line basis as appropriate.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral interests

All direct costs relating to the mineral interests which meet the generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the recovered minerals to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

Carrying values of mineral interests as reported on the balance sheet do not necessarily reflect the actual present or future value. Recovery of carrying values is dependent upon the future commercial success of operations.

Upon establishment of commercial production, carrying values of mineral interests are amortized over the estimated life of the mines, using the units-of-production method, based upon the current estimated recoverable reserves and resources.

Other property, plant, equipment and amortization

Other property, plant and equipment is depreciated using the following rates and methods:

Plant and equipment	3 – 7 years	Straight-line
Computer equipment	3 years	Straight-line
Computer software	1 – 3 years	Straight-line
Furniture and fixtures	3 – 10 years	Straight-line
Housing	10 years	Straight-line
Tools	7 years	Straight-line
Vehicles	2 – 7 years	Straight-line
Leasehold improvements	-	Over term of underlying lease

Impairment of long-lived assets

Property, plant and equipment and mineral properties are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When events or changes in circumstances suggest possible impairment, estimated future net cash flows for a mine or development project are calculated using estimated future prices, mineral resources and operating and capital costs on an undiscounted basis. When estimated future undiscounted cash flows are less than the carrying value, the asset is considered impaired. Reductions in carrying value are recorded to the extent the book value exceeds the fair value of the assets.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets (continued)

As at December 31, 2008, the Company had assessed an impairment on the basis of a revised Joint Venture Agreement that detailed life of mine lease as 30 years with two renewal options that were then under negotiation. Given the challenging economic environment prevailing at that time, the Company recorded an impairment write down against property, plant and equipment totaling \$1,414.3 million as well as a write down of inventories totaling \$46.1 million as explained more fully in note 19.

The Company's estimates of mineral prices, recoverable reserves and operating and capital costs are subject to certain risks and uncertainties that may affect the recoverability of mineral property costs. Although the Company has made its best estimate of these factors, it is possible that changes could occur that could further affect management's estimate of the recoverable amount.

Borrowings

Borrowings are initially recognized at fair value less attributable issue costs. Subsequent to initial recognition, borrowings are stated at amortized cost.

Asset retirement obligations

The fair value of liabilities for asset retirement obligations is recognized in the period in which they are incurred. The fair value is determined based on the estimated future cash flows required to settle the liability discounted at an estimated risk-free rate. The liability is adjusted for changes in the expected amounts and timing of cash flows and accreted over time to its present value, (accretion charge is included in the statement of operations within cost of sales). The associated asset retirement costs are capitalized as part of the carrying amount of property, plant and equipment and amortized over the expected useful life of the asset.

Stock-based compensation

The Company recognizes the fair value of stock-based compensation over the vesting period of the options and restricted stock units. The fair value of the options granted is calculated using an option pricing model that takes into account the exercise price, expected life of the option, expected volatility of the underlying shares, expected dividend yield, and the risk free interest rate for the term of the option.

The fair value of the restricted stock units is based on the market value of the underlying stock at the date of grant and is revalued based on the market value at the balance sheet date.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative figures

Certain of the 2008 figures have been reclassified to conform to the current year financial statement presentation. The significant changes to the consolidated statement of operations and comprehensive loss were the reclassification of terminated contract costs from impairment expenses to restructuring expenses, the reclassification of executive termination costs from general and administrative expenses to restructuring expenses and the reclassification of general and administrative expenses incurred in the DRC to cost of sales. The significant change to the consolidated balance sheet was the set-off of future income tax assets against future income tax liabilities that were in the same taxable entity and additional disclosure on restricted cash.

New accounting policies

On January 1, 2009, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA").

Adopted in fiscal 2009

Mining Exploration Costs

In March 2009, the CICA issued EIC-174, "Mining Exploration Costs." The EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard was effective for the fiscal year beginning January 1, 2009. The application of this EIC had no effect on the consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The application of this EIC had no material effect on the consolidated financial statements.

CICA 3064 Goodwill and Intangible Assets

The CICA has issued Handbook Section 3064 "Goodwill and Intangible assets" which may affect the financial disclosure and results 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 adopted the requirements commencing in the quarter ended March 31, 2009. Section 3064 establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The application of this EIC had no effect on the consolidated financial statements.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adopted in fiscal 2009 (continued)

Amendment to Financial Instruments – Disclosures (“Section 3862”)

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

See note 4 for the relevant disclosures.

To be adopted in fiscal 2010 and beyond

Business Combinations

In October 2008, the CICA issued Handbook Section 1582, “Business Combinations”, which establishes new standards for accounting for business combinations. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Should the Company engage in a future business combination, it would consider early adoption to coincide with the adoption of IFRS.

Non-controlling Interests

Also in October 2008, the CICA issued Handbook Section 1602, “Non-controlling Interests”, to provide guidance on accounting for non-controlling interests subsequent to a business combination. This is effective for fiscal years beginning on or after January 2011.

3. FINANCING AND CAPITAL DISCLOSURES

New financings

Convertible debt

On June 2, 2009, the Company announced that it had received notices of exchange from all lenders under the mandatorily convertible facility (the “Facility”) to exchange in full their respective loan participations in the Facility (including accrued and capitalized interest to date) into common shares of the Company (see note 11). As at that date, the total amount outstanding under the Facility was US\$270.2 million, which included accrued and capitalized interest. In connection with the exchange, the Company issued an additional 971,023,329 common shares.

Following the issuance of these common shares, the Company has no further obligations to the lenders under the Facility.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

3. FINANCING AND CAPITAL DISCLOSURES (continued)

New financings (continued)

Rights offering

On June 10, 2009, the Company announced the completion of the early liquidity closing (the "Early Liquidity Closing") in connection the Company's previously announced US\$250 million rights offering (the "Offering"). As a result of the early liquidity closing, the Company issued an aggregate of 492,379,266 common shares to Glencore Finance (Bermuda) Limited and its related party Jangleglade Limited, subsidiaries of Glencore International AG ("Glencore"), for aggregate gross proceeds to the Company of US\$172,333.

On July 7, 2009, the Company announced the further issuance of 225,657,016 common shares pursuant to the Offering and the Standby Commitment, increasing its total issued and outstanding common shares to 1,895,380,413, and received the remainder of the gross proceeds of US\$77,667 for a total offering amount of US\$250,000.

The Company used \$32.5 million of the proceeds to fully repay a non-convertible partly-drawn bridge loan facility owing to Glencore. As part of the Offering, issue costs of \$4,774 were incurred.

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 development.

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.

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

4. 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 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 to one customer, which is 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 cash balances and debenture notes. The debenture notes have a fixed interest rate of 14.0%.

(b) Foreign currency risk

The Company's functional currency is the U.S. dollar. Sales are transacted in U.S. dollars and the majority of major purchases are transacted in U.S. dollars and South African rand. The Company maintains the majority of its cash and cash equivalents in U.S. dollars but it does hold balances in South African rand, British pounds, Canadian dollars, Swiss franc 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 U.S. dollar moved by plus or minus 1% at December 31, 2009, the unrealized foreign exchange gain or loss would move by approximately \$68.

The debentures payable are denominated in Canadian dollars and as such the Company is exposed to unrealized foreign exchange gains or losses which will be realized upon maturity of the debentures on November 20, 2013. A plus or minus 1% movement in the Canadian dollar exchange rate at December, 31 2009 would affect the consolidated statement of operations and comprehensive loss by approximately \$1,184.

Commodity risk

The Company sells copper, cobalt and 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 years. There is currently no intention to hedge future copper and cobalt sales.

As at December 31, 2009, the Company had 8,138 tonnes of copper and 860 tonnes of cobalt sales for which final commodity prices have yet to be determined. These were valued at the end of the year at an average commodity price of \$7,345 per tonne for copper and \$36,108 per tonne for cobalt (amounts in whole numbers). A 1% plus or minus movement in the copper and cobalt price at December 31, 2009 would result in a \$904 change to revenue and trade receivables.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

It is anticipated that the Company's existing cash balances, which include the proceeds from the issuance of equity in June and July 2009, cash flow from operations and existing credit facilities will be sufficient to fund the operations, and Phase III capital and reclamation programs planned for the next twelve months (see note 22).

Financial Instruments

At December 31, 2009 and 2008, the Company's financial instruments consisted of cash and cash equivalents, other current assets, accounts payable and accrued liabilities, non-hedged derivative financial instruments, long-term debt and other long-term liabilities. With respect to all of these financial instruments with the exception of the publicly-traded debentures, the Company estimates that the fair value of these financial instruments approximates the carrying values at December 31, 2009 and 2008, respectively. The publicly-traded debentures were trading at a discount to their carrying value, as at December 31, 2009 (fair value - \$109,474), and December 31, 2008 (fair value - \$51,077).

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy established using Canadian GAAP as at December 31, 2009¹:

	Financial assets and liabilities at fair value as at December 31, 2009			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Receivables from provisional copper sales (1)	-	9,213	-	9,213
Restricted stock units (2)	47	-	-	47
	47	9,213	-	9,260

¹Comparative information has not been presented in the table because this comparative information is not required in the year of adoption.

- (1) Open provisionally priced copper 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 offset by the contractual discount to the LME price. As such, these receivables are classified within Level 2 of the fair value hierarchy.
- (2) Outstanding restricted stock units are marked-to-market based on the Company's share price on the Toronto Stock Exchange at the reporting date. As such, these payables are classified within Level 1 of the fair value hierarchy.

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5. RESTRICTED CASH

	As at December 31, 2009 \$	As at December 31, 2008 \$
Guarantees (1)	5,000	3,000
Debenture interest (2)	8,455	7,625
	13,455	10,625

(1) The Company has entered into guarantees as required by certain capital asset procurement contracts. These guarantees mature on April 30, 2010 (\$3,000) and July 30, 2011 (\$2,000).

(2) Semi-annual debenture interest held in trust before payment to debenture-holders after December 31, 2009 and 2008, respectively.

6. INVENTORIES

	As at December 31, 2009 \$	As at December 31, 2008 \$
Ore in stockpiles	24,260	6,460
Work in progress	6,359	13,189
Finished product	20,785	4,014
Total product inventory	51,404	23,663
Consumables	41,030	33,517
	92,434	57,180

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7. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2009	Cost \$	Accumulated amortization and depreciation \$	Carrying amount \$
Mineral interests			
Capitalized development expenditures ¹	956,930	-	956,930
Assets subject to amortization	120,811	8,917	111,894
Total	1,077,741	8,917	1,068,824
Other property, plant and equipment			
Plant and equipment	361,158	29,310	331,848
Computer equipment	4,533	1,737	2,796
Computer software	2,347	1,613	734
Furniture and fixtures	2,613	1,471	1,142
Land and buildings	24,136	1,425	22,711
Vehicles	37,565	13,000	24,565
Closure and restoration costs	2,039	81	1,958
Leasehold improvements	10,194	1,395	8,799
Assets under construction	18,527	-	18,527
Total	463,112	50,032	413,080
Total property, plant and equipment	1,540,853	58,949	1,481,904
As at December 31, 2008			
Mineral interests			
Capitalized development expenditures ¹	903,486	-	903,486
Assets subject to amortization	332,865	10,512	322,353
Total	1,236,351	10,512	1,225,839
Other property, plant and equipment			
Plant and equipment	71,017	7,588	63,429
Computer equipment	6,694	1,196	5,498
Computer software	612	224	388
Furniture and fixtures	3,546	1,147	2,399
Land and buildings	7,983	154	7,829
Vehicles	32,890	7,172	25,718
Closure and restoration costs	5,116	2,019	3,097
Leasehold improvements	1,107	230	877
Assets in transit	7,850	-	7,850
Total	136,815	19,730	117,085
Total property, plant and equipment	1,373,166	30,242	1,342,924

1 Includes the fair value (net of impairment write-downs) ascribed to the KOV pit on acquisition of Nikanor PLC (see note 18).

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2009 \$	As at December 31, 2008 \$
Trade payables and accruals	81,037	121,071
Change of control accrual (1)	237	10,374
Other accruals (2)	40,930	45,052
Total accounts payable and accrued liabilities	122,204	176,497

- (1) During the year ended December 31, 2008, pursuant to employment and change of control agreements, five Company executives became entitled to termination payments upon their resignation. These obligations were substantially settled during the year ended December 31, 2009, with the balance expected to be settled during 2010 and 2011.
- (2) During the year ended December 31, 2008, the Company indicated its intention to defer expansion plans relating to the development of a SX/EW plant. As at December 31, 2008, the Company recorded an accrual for further amounts based on legal obligations incurred relating to work carried out on terminated contracts before and after December 31, 2008. The balance outstanding at December 31, 2009 represents the estimated amount remaining to be settled.

9. DEBENTURES PAYABLE

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Units") for an aggregate of Canadian \$115,000,000. Each Unit consists of a Canadian \$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants ("Warrants"). Initially each Warrant entitled the holder to purchase one common share of the Company anytime within five years from the closing date at Canadian \$8.50 per share. As a result of the rights offering and the adjustment to the exchange basis of the warrants pursuant to the terms of the warrant indenture, the number of common shares issuable on the exercise of the warrants has increased from 1 common share to 1.28 common shares per warrant. 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 Canadian \$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 Canadian \$1.68.

During the year ended December 31, 2009, \$15,380 of interest was paid on the debentures (year ended December 31, 2008 - \$17,289).

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9. DEBENTURES PAYABLE (continued)

The debentures payable balance is comprised of the following:

	As at December 31, 2009 \$	As at December 31, 2008 \$
Debenture payable, beginning of the year	94,520	118,012
Changes during the year:		
Accretion	1,540	1,541
Foreign exchange translation loss (gain) (1)	16,869	(25,033)
Debentures payable, end of the year	112,929	94,520

- (1) The foreign exchange translation loss (gain) is unrealized and represents the revaluation of the Canadian dollar denominated debentures to U.S. dollars. The foreign exchange translation amount will change in accordance with the relevant movement of the Canadian dollar to the U.S. dollar. The foreign exchange translation gain or loss is expected to be realized upon maturity of the debentures on November 20, 2013.

10. OTHER LONG-TERM LIABILITIES

Pursuant to the terms of the new Joint Venture Agreement (see note 25), a "*pas de porte*" ("entry premium") obligation shall be payable to Gécamines for access to the project. The total amount of \$140,000 is payable in instalments on an agreed schedule until 2016. Of the \$140,000, \$20,000 has already been paid and \$24,500 has been deducted representing Gécamines' outstanding share capital contribution to KCC. Payment of the entry premium was dependent upon certain conditions that are set out in the new joint venture agreement, including transfer of mineral property rights to the new joint venture.

Upon completion of these conditions and transfer of those rights, the full net present value of the outstanding payments has been recognized in these consolidated financial statements and capitalized to mineral interests. This amount will be amortized over the life of the mines using the units of production method. The expected cash flows were discounted at the Company's cost of capital of 14% per annum.

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11. CONVERTIBLE DEBT

On November 5, 2007, the Company's subsidiary KCC finalized a two-year term debt facility for \$150 million with Glencore International AG ("Glencore"). The key terms of the debt facility were 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 the 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 was guaranteed by the Company.

On January 12, 2009, the Company's subsidiary KCC completed a two-year mandatorily convertible loan facility in the principal amount of \$265.3 million, (the "Facility"). The Facility was split in two parts:

- a new finance facility of \$100 million underwritten by Glencore; and
- an amendment and restatement of the existing \$150 million loan facility provided by Glencore, which, with accrued interest amounted to \$165.3 million.

The Facility incurred interest at LIBOR plus 3% payable upon maturity. During the two-year term, the Facility was convertible at the option of each lender into common shares of the Company either at any time while the loan was outstanding at \$0.2783 per common share, being the 5 day volume weighted average Canadian dollar price per common share immediately prior to the announcement of the Facility converted into U.S. dollars using the noon rate published by the Bank of Canada for December 23, 2009, or at any time within seven days of any equity issuance of more than \$25.0 million by the Company at the price per share of the equity issuance converted into U.S. dollars.

On June 2, 2009, the Company received notices of exchange from all lenders under the facility to exchange in full their respective loan participations in the Facility (including accrued and capitalized interest to such date) into common shares of the Company. As at that date, the total amount outstanding under the Facility was \$270.2 million, which included accrued and capitalized interest. In connection with the exchange, the Company issued an additional 971,023,329 common shares.

Following the issuance of these common shares, the Company has no further obligations to the lenders under the Facility.

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11. CONVERTIBLE DEBT (continued)

The convertible debt was comprised of the following:

	As at December 31, 2009 \$	As at December 31, 2008 \$
Convertible debt, beginning of the year	163,848	149,518
Additional drawdown	100,000	-
Equity component of additional drawdown (1)	(5,065)	-
Interest capitalized	5,256	12,973
Accretion (2)	6,197	1,357
Converted into common shares	(270,236)	-
Convertible debt, end of the year	-	163,848

- (1) The equity component of the additional drawdown on the refinanced facility was valued by determining the carrying amount of the financial liability. This was done 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 5.5%). 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 additional drawdown, the estimated fair value of \$5,065 attributed to the equity component was credited to shareholders' equity on the consolidated balance sheet.
- (2) The convertible debt was being accreted to its face value over the term of the loan with a corresponding accretion expense. Given the early conversion of the facility into common shares of the Company on June 2, 2009, accelerated accretion expense (that would have otherwise been recognized on a straight-line basis to January 11, 2011) of \$4,906 was recognized by the Company.

12. 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 acquired foreign exchange derivatives at fair value as a consequence of the acquisition of Nikanor PLC ("Nikanor").

A summary of the liabilities associated with the derivatives is as follows:

	As at December 31, 2009 \$	As at December 31, 2008 \$
Current		
Foreign currency forward contract	-	48
	-	48

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13. CAPITAL STOCK AND CONTRIBUTED SURPLUS

(a) AUTHORIZED

1,000 common shares, par value \$12.00 each
5,000,000,000 common shares, par value \$0.10 each

On January 12, 2009, the authorized share capital of the Company was increased from 300,000,000 to 5,000,000,000 common shares with a par value of \$0.10.

(b) WARRANTS

The following table reflects the continuity of warrants during the year ended December 31, 2009:

Expiry date	Exercise price (1)	Outstanding December 31, 2008	Issued during the year	Exercised / expired during the year	Outstanding December 31, 2009
November 20, 2011	Canadian\$8.50	3,966	-	-	3,966

(1) The fair market value originally assigned to outstanding warrants was Canadian \$7,728 (\$6,736). Canadian \$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. As a result of the rights offering and the adjustment to the exchange basis of the warrants pursuant to the terms of the warrant indenture the number of issuable common shares on the exercise of the warrants has increased from 1 common share to 1.28 common shares per warrant. The resultant change in fair value as a result of the modification was not considered significant.

(c) STOCK OPTIONS

The following table reflects the continuity of stock options during the years presented:

	Number of stock options	Weighted Exercise Price per Share (1)
Outstanding at December 31, 2007	3,148,333	10.06
Granted during the year	1,965,000	13.67
Options issued to former Nikanor option holders	928,234	16.10
Forfeited during the year	(525,881)	14.17
Outstanding at December 31, 2008	5,515,686	11.95
Forfeited during the year	(1,065,000)	10.92
Outstanding at December 31, 2009	4,450,686	12.20

(1) Denominated in Canadian dollars.

During the year ended December 31, 2009, there were no options granted pursuant to the Company's stock option plan. During the year ended December 31, 2008, 1,965,000 stock options were granted pursuant to the Company's stock option plan with an average exercise price of \$13.67. The value assigned to these options was calculated using the Black-Scholes valuation model.

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13. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

(c) STOCK OPTIONS (continued)

During the year ended December 31, 2008, 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 of Nikanor. Under Nikanor's option plan, the Company granted 928,234 options with an exercise price of \$16.10.

The following table summarizes the stock options outstanding at December 31, 2009:

Exercise Price per Share (1)	Expiry Date	Exercisable Options	Outstanding unvested Options (2)
\$4.10	January 17, 2011	30,000	-
\$7.40	April 18, 2011	783,333	-
\$6.15	July 6, 2011	200,000	-
\$6.00	July 9, 2011	185,000	-
\$7.30	December 17, 2011	383,334	16,666
\$12.81	April 1, 2012	25,000	-
\$15.97	May 6, 2012	16,667	8,333
\$16.29	May 9, 2012	100,000	-
\$18.09	July 1, 2012	33,333	16,667
\$14.61	December 5, 2012	1,066,666	33,334
\$14.77	January 24, 2013	500,000	-
\$16.10	July 16, 2016	702,376	-
\$16.10	September 24, 2016	97,056	-
\$16.10	January 8, 2017	71,763	-
\$16.10	March 28, 2017	31,158	-
\$13.59	April 28, 2013	26,667	23,333
\$13.25	April 30, 2013	16,667	33,333
\$10.50	August 14, 2013	16,667	33,333
		4,285,687	164,999

(1) Denominated in Canadian dollars.

(2) The aggregate fair value of these unvested options not yet charged to operations is Canadian \$793.

The weighted average exercise price of exercisable options is Canadian \$12.16 and outstanding unvested options is Canadian \$13.04.

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13. 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 was 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 share awarded was estimated to be \$15.80, the market value of the Company's shares at the date of acquisition. The total fair value assigned to these awards was \$3,811 and this was included as part of the acquisition costs. These awards are now fully vested as the associated employees have left the Company.

14. ASSET RETIREMENT OBLIGATIONS ("AROs")

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 following table details the items that affect the AROs:

	As at December 31, 2009 \$	As at December 31, 2008 \$
Asset retirement obligations, beginning of the year	4,674	-
Arising from acquisition of Nikanor	-	2,410
Accretion	417	122
Revision to estimate	(127)	2,142
Asset retirement obligations, end of the year	4,964	4,674

The AROs which arose on the acquisition of Nikanor were recorded at fair value. Fair value was calculated by discounting the expected cash flows using a discount factor of 5% that reflected the credit adjusted risk free rate of interest applicable at the time of acquisition. The majority of the AROs relate to maintenance and monitoring of the site, earthworks, rehabilitation and reclamation of mining areas. The AROs were acquired at a fair value of \$2,410.

As at December 31, 2008, the Company reassessed its AROs resulting in the recognition of an additional liability of \$2,142. The amount of \$2,142 represents the present value of the revised obligations discounted at a rate of 14% that reflects the credit adjusted risk free rates applicable to the Company. It is anticipated that these costs will be incurred over a period of 5-30 years.

As at December 31, 2009, the Company reassessed its AROs due to the transfer of the KZC concentrator to Gécamines as agreed in the new Joint Venture Agreement (see note 25). This resulted in a \$127 reduction in the ARO.

The undiscounted value of the AROs is \$24,936.

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15. RESTRICTED STOCK UNITS (“RSUs”)

Included on the Company's December 31, 2009 consolidated balance sheet is a payable of \$47 related to 70,531 outstanding RSUs, (December 31, 2008 - \$66 related to 324,634 RSUs). The following table reflects the continuity of RSUs during the year:

	December 31, 2009	December 31, 2008
	Number of RSUs	Number of RSUs
Restricted stock units, beginning of the year	324,634	740,434
Granted	-	131,300
Vested	(205,436)	(468,766)
Forfeited	(48,667)	(78,334)
Restricted stock units, end of the year	70,531	324,634

16. SALES AND COST OF SALES

	Year ended	
	December 31, 2009	December 31, 2008
	\$	\$
Copper	208,175	46,169
Cobalt	70,935	26,228
Cobalt concentrate	6,439	137,594
	285,549	209,991

Copper and cobalt 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 prices at a specified period as stated in the relevant sales agreement. At each reporting date, open provisionally priced copper sales which retain an exposure to future changes in prices are marked-to-market based on London Metal Exchange (“LME”) forward prices for copper offset by the contractual discount to the LME price with adjustments being recorded in sales in the statement of operations and accounts receivable on the balance sheet. The marked-to-market gain for the year ended December 31, 2009 was \$9,213 (December 31, 2008, loss of \$9,976) with a corresponding increase or decrease in accounts receivable. Cobalt sales are not marked-to-market due to the absence of a futures market.

As at December 31, 2009, the Company recognized an unearned revenue balance of \$14,600 on copper and cobalt (December 31, 2008 - \$14,041) due to advance payments received on future sales and contractual obligations to invoice upon shipment of goods from the mine site. Sales revenue is not recognized until title and ownership has transferred.

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 in the year ended December 31, 2008 includes \$68,934 representing the fair value increment assigned to the acquired concentrate all of which has been sold in the year ended December 31, 2008. As a consequence of this accounting, the difference between the estimated fair value and actual realized sales price has been included in the year ended December 31, 2008 consolidated statement of operations.

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17. RESTRUCTURING EXPENSES

The following represent amounts incurred as part of the restructuring of the Company's operations required to comply with the new joint venture agreement (see note 25), to implement a new mine plan and reduce the Company's non-core overheads.

	Year ended	
	December 31, 2009	December 31, 2008
	\$	\$
Loss on return of assets to Gécamines (1)	7,015	-
Loss on termination of Kamoto Operating Limited operating agreement (2)	6,784	-
Office closure costs (3)	4,748	-
Net (Gain) loss on termination and settlement of construction services contracts for SX/EW plant (4)	(9,114)	84,032
Executive termination (5)	-	24,827
Employee termination (6)	4,582	-
	14,015	108,859

- (1) As part of the merger of the KCC and DCP Joint Ventures, it was agreed that the KZC concentrator at Kolwezi would be returned to Gécamines. The cost represents the capital expenditures incurred by DCP and consumable stores associated with the operating of the plant that were handed over to Gécamines as part of the agreement.
- (2) On September 23, 2009, the Company completed the acquisition of Kamoto Operating Limited ("KOL"). The Company acquired KOL from companies controlled by former directors of the Company by issuing an aggregate of 12,000,000 common shares and by making a cash payment in the aggregate amount of \$1,600. KOL was the operator of the assets of KCC in the DRC pursuant to the terms of an operating agreement between KOL and KCC dated November 2, 2005 (the KOL Operating Agreement). As part of the new joint venture agreement with Gécamines (see note 25), it was agreed that the KOL Operating Agreement would be terminated on September 30, 2009. The amount of the loss on the termination was equal to the consideration paid to acquire KOL, namely cash of \$1,600 and the value assigned to 12,000,000 common shares of the Company.
- (3) Office closure costs represent remaining lease costs and employee termination costs related to the closure of the UK corporate services office (the corporate services office has now relocated to Switzerland) and costs related to the relocation of the South African office.
- (4) During the year ended December 31, 2008, the Company indicated its intention to defer expansion plans relating to the development of a SX/EW plant. As at December 31, 2008, the Company recorded an accrual for amounts based on legal obligations incurred relating to work carried out on terminated contracts before and after December 31, 2008. The net gain on settlement in the year ended December 31, 2009 represents the gains net of losses incurred on contracts settled in 2009 relative to the respective recorded accruals.
- (5) Included in the \$24,827 presented above were termination entitlements of \$5,103 (including employment taxes) and accelerated stock-based compensation charges of \$2,086 due to the former President and CEO. Also included in the \$24,827 above were accrued amounts for termination benefits \$10,374 and accelerated stock-based compensation charges \$7,264 for five senior managers who were entitled to contractual termination benefits upon their resignation pursuant to employment and change of control agreements.

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17. RESTRUCTURING EXPENSES (continued)

- (6) Employee termination costs represent costs incurred to terminate employees in the DRC as a result of the deferral of the SX/EW plant expansion and the return of the KZC concentrator to Gécamines disclosed in (1) and (4) above.

18. 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, plus acquisition costs (including values assigned to rollover options and performance shares) and their associated future income tax liability were:

Asset/Liability	Fair Value
	\$
Cash and cash equivalents (after the distribution in a) above)	406,660
Cash investments with maturities greater than three months	58,354
Inventories (after fair value increase of \$68,934 from book value)	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 obligations	(2,410)
Net derivative instruments	(2,940)
Total	2,052,063

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19. IMPAIRMENT OF MINERAL PROPERTIES AND INVENTORIES

The Company is required to test the recoverability of long-lived assets when circumstances indicate that their carrying amount may not be recoverable. The Company considered the precipitous decline in the copper and cobalt prices in the fourth quarter of 2008 and the deterioration in the credit markets as well as revised production plans developed by the Company in response to these factors to be events that required the Company to test for recoverability. The Company used the concept of an asset group when calculating the carrying value of long-lived assets and considered the Kamoto project and KOV pit development as one asset group. The carrying value was calculated to be greater than the undiscounted cash flows expected from the asset group and as such the Company has written these assets down to their estimated fair value.

The Company used a present value technique to estimate the fair value of the long-lived assets which included estimates of future cash flows, expectations on the timing of those cash flows, the time value of money, a factor for bearing the uncertainty, forecasted metal prices, forecasted exchange rates and an estimate of the useful life of the assets.

The Company also tested inventories for recoverability at December 31, 2008 and provisions for impairment were made based on net realizable value. Net realizable value was adversely affected by lower copper and cobalt prices and increased transportation costs.

Impairment write downs

	Year ended December 31, 2008 \$
Mineral properties (1)	1,414,317
Inventories (2)	46,061
	1,460,378

(1) Primarily due to an inability to obtain project financing and as consequence of a deterioration in the credit markets brought on by the global economic downturn, the significant decline in metal prices and delays in finalizing a new joint venture agreement, the Company made a decision to defer the phased development of an SX/EW plant. All work on this project was stopped in early 2009 and all construction contracts were terminated as appropriate, (see notes 8 and 17).

In addition to the terminated construction contracts, the Company revised its business plan which now encompasses a phased approach to capacity expansion. With consideration to this phased expansion and market deterioration, the fair value of the Company's mineral properties was estimated using a discounted cash flow approach with the above resultant write down.

(2) The write down primarily relates to concentrate, work-in-progress, finished goods inventories and ore in stockpiles.

For 2009 there were no circumstances to indicate that the carrying amount of long-lived assets would not be recoverable.

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20. FOREIGN EXCHANGE AND OTHER EXPENSES

	Year ended	
	December 31, 2009	December 31, 2008
	\$	\$
Foreign exchange loss	16,242	3,068
Net derivative (gain) loss	(48)	2,552
Interest expense	1,335	-
Convertible debt accretion	6,197	1,357
	23,726	6,977

21. RELATED PARTY TRANSACTIONS

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

Related Parties

DEM Mining SPRL ("DEM"), Dan Gertler holds an interest in the shares in DEM and has a beneficial interest in the Company. DEM was contracted to drill, mine and transport ore from the Tilwezembe mine to the crusher at the KZC plant. This contract was completed in December 2008.

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 International AG ("Glencore") is the majority shareholder and is represented on the Board of Directors 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 are sold to Glencore on market terms. During the year ended December 31, 2009, Glencore has also provided funding to the Company in the form of convertible debt and a non-convertible bridge loan facility (see notes 3 and 11).

Xstrata Queensland Ltd ("Xstrata") is identified as a related party on the basis Glencore holds a significant interest in Xstrata. At December 31, 2009, this interest represented 34.38% of Xstrata's issued share capital. During 2008 and 2009, Xstrata has provided mining equipment and services to the Company.

Mopani Copper Mine Plc ("Mopani") is a copper and cobalt producer located in Zambia. Mopani is a 73% owned subsidiary of Glencore. During 2008 and 2009, Mopani supplied sulphuric acid and other consumables to the Company.

Mutanda ya Mukonkota Mining SPRL ("Mutanda") is a copper and cobalt producer located in the DRC. Mutanda is a 40% owned investment of Glencore. During the year ended December 31, 2009, Mutanda supplied cranes to the Company and the Company supplied vehicles and furniture to Mutanda.

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21. RELATED PARTY TRANSACTIONS (Continued)

Kamoto Operating Limited (“KOL”), a company incorporated pursuant to the laws of the DRC, was 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. KOL was acquired by the Company on September 23, 2009, and the Operating Agreement terminated on September 30, 2009. Current shareholders and former directors of the Company were the owners of KOL. The Operating Agreement established the terms and conditions pursuant to which KOL as operator provided 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 provided to KOL. Fees to the end of May, 2008 were capitalized to mineral interests. From the commencement of commercial production on June 1, 2008 to the date of termination of the Operating Agreement (September 30, 2009), fees were expensed in the consolidated statement of operations and comprehensive loss.

Enterprise Generale Malta Forrest SPRL (“EGMF”), a company owned by George Forrest and which has Malta Forrest as a Director, both of whom had a beneficial interest in the Company, was involved in contracts for the sourcing and provision of goods and services (including construction and other resources), mining of one of the open pit ore bodies, civil work and the construction of a tailings dam. EGMF ceased being a related party on June 10, 2009. These contracts were entered into while EGMF was a related party.

Malta Forrest, who was a Director and had a beneficial interest in the Company, provided consultation on corporate affairs in the DRC. Malta Forrest ceased being a related party on June 10, 2009.

Bateman Engineering N.V (“Bateman”), a company in the BSG Resources group who through Oakey Investment Holdings, was a related party as a result of owning a beneficial interest in the Company, and was engaged in the engineering and procurement contracts for KOV and the Kamoto Project. These contracts were entered into while Bateman was a related party. Bateman ceased being a related party on June 2, 2009.

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21. RELATED PARTY TRANSACTIONS (continued)

Transactions

All transactions, other than the financing transactions with Glencore, were in the normal course of business and recorded at exchange amounts. The following table provides the total amount of the transactions entered into with these related parties:

	Year ended December 31, 2009 \$	Year ended December 31, 2008 \$
Purchases from related parties		
DEM	-	37,875
Gécamines	5,153	5,271
Xstrata	7,861	38,774
Mopani	7,151	-
Mutanda	464	-
Purchases from former related parties		
EGMF	28,829	29,417
Bateman	4,617	26,129
Malta Forrest	-	90
Sales to related parties		
DEM	-	601
Mutanda	440	-
Glencore	284,626	110,351
Sales to former related parties		
EGMF	3,808	-
<hr/>		
	As at December 31, 2009 \$	As at December 31, 2008 \$
Amounts owed to related parties		
DEM	-	8,257
Gécamines	-	13
Glencore	178	-
Glencore (convertible debt)	-	162,885
Xstrata	1,915	14,608
Amounts owed by related parties		
Gécamines	806	-
Mopani	5,190	-
Mutanda	24	-
Glencore	44,774	7,454

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Years Ended December 31, 2009 and 2008

22. COMMITMENTS

The following table summarizes the Company's contractual and other obligations as at December 31, 2009.

Payments due by period	Total	Less than	1-3 years	4-5 years	After 5
	\$	1 year	\$	\$	years
	\$	\$	\$	\$	\$
Capital expenditure commitments (1)	15,090	15,090	-	-	-
Debentures payable (2)	183,752	16,654	33,355	133,742	-
Other long-term liabilities (3)	95,500	10,000	25,000	30,000	30,500
Gécamines lease (4)	27,000	1,800	5,400	3,600	16,200
	321,342	43,544	63,755	167,342	46,700

- (1) The capital expenditure commitments relate to Phase II and Phase III of the Kamoto Project. Phase II is substantially complete with financial completion expected to be on budget in early 2010. Phase III has commenced, with a budgeted cost of \$262 million, and is expected to increase production to 150,000 tonnes of copper per annum by 2011. Phase III contract negotiations were in progress at December 31, 2009, and contracted capital expenditure commitments are expected to increase during 2010. It is expected that Phase II and III will be funded by existing cash balances and cash generated by operations.
- (2) The total payable includes all interest costs to the date of repayment.
- (3) A "pas de porte" ("entry premium") obligation is payable to Gécamines for access to the project. The total amount of \$140,000 is payable in installments on an agreed schedule until 2016. Of the \$140,000, \$20,000 has already been paid and \$24,500 has been deducted representing Gécamines' outstanding share capital contribution to KCC (see notes 10 and 25).
- (4) Pursuant to the terms of the New Joint Venture Agreement (see note 25), all installations and infrastructures within the perimeter of the KCC/DCP concession area shall be rented for an annual lease payment to Gécamines of \$1,800.

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

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Years Ended December 31, 2009 and 2008

23. INCOME TAXES

The following table reconciles the expected income tax (provision) recovery at the statutory income tax rates to the amounts recognized in the statements of operations:

	Year ended	
	December 31, 2009 \$	December 31, 2008 \$
Loss before income taxes reflected in the consolidated statements of operations	(105,016)	(1,705,955)
Expected income tax recovery at Canadian statutory rates	30,455	503,257
Effect of difference in foreign tax rates	36,362	30,282
Effect of change in temporary differences not recognized	-	(69,642)
Permanent differences	(10,455)	8,063
Current year losses not recognized	(57,441)	(65,196)
Adjustment in respect of prior years	(1,905)	298
(Provision for) recovery of income taxes:	(2,984)	407,062

The components of the (provision for) recovery of income taxes comprise:

	Year ended	
	December 31, 2009 \$	December 31, 2008 \$
Current tax expense		
Canada	-	-
Foreign	(2,329)	794
Future tax expense		
Canada	-	-
Foreign	(655)	406,268
	(2,984)	407,062

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Years Ended December 31, 2009 and 2008

23. INCOME TAXES (continued)

The following table reflects the future income tax asset and liability amounts at December 31, 2009 and December 31, 2008:

	As at December 31, 2009 \$	As at December 31, 2008 \$
Future income tax assets		
Property, plant and equipment	180	18
Exploration and development	-	73,466
Non-capital losses carried forward	280,739	93,122
Other	16,574	53,220
	297,493	219,826
Less: valuation allowance	(197,949)	(160,675)
Total future income tax assets	99,544	59,151
Future income tax liabilities		
Property, plant and equipment	(191,468)	(200,430)
Exploration and development	(71,650)	(21,640)
Total future tax liabilities	(263,118)	(222,070)
Future income tax liabilities - net	(163,574)	(162,919)

The future income tax assets of \$99,545 primarily represent tax losses in the DRC, to the extent they offset deferred tax liabilities arising in the same company.

The Company has recorded a valuation allowance in respect of non-capital losses and other tax assets in the amount of \$197,949 as at December 31, 2009 (December 31, 2008 - \$160,675) 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.

Gross non-capital losses carried forward of \$41,676 expired on the exchange of the convertible facility on 2 June 2009 (see note 3 and 11). In addition, gross non-capital losses carried forward of \$52,319 in DCP will expire on the merger with KCC. As at December 31, 2009, the Company had gross non-capital losses available for future use expiring 2013 and thereafter of \$937,375 (December 31, 2008 - \$317,468).

KATANGA MINING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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24. SEGMENTED INFORMATION

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

	Corporate \$	Operations in DRC \$	Total \$
As at December 31, 2009			
Cash and cash equivalents	55,724	21,519	77,243
Other assets	40,185	1,634,223	1,674,408
Total assets	95,909	1,655,742	1,751,651
As at December 31, 2008			
Cash and cash equivalents	28,452	3,372	31,824
Other assets	26,695	1,412,686	1,439,381
Total assets	55,147	1,416,058	1,471,205
Year ended December 31, 2009			
Sales revenue	-	285,549	285,549
Net loss	(53,419)	(54,581)	(108,000)
Interest income	1,028	642	1,670
Debt interest	(17,214)	-	(17,214)
(Provision for) recovery of income taxes	(802)	(2,182)	(2,984)
Year ended December 31, 2008			
Sales revenue	-	209,991	209,991
Net loss	(50,068)	(1,248,825)	(1,298,893)
Interest income	16,180	-	16,180
Debt interest	(18,426)	-	(18,426)
Recovery of income taxes	429	406,633	407,062

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

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25. JOINT VENTURE AGREEMENT (“JVA”)

On July 25, 2009, an amended JVA was signed with Gécamines. The major areas of the new JVA are: to release the Dikuluwe and Mashamba West Deposits; merge the DCP and KCC joint ventures; and address requirements of the Government of the Democratic Republic of Congo resulting from the review of mining partnerships with Gécamines. KCC will be the continuing joint venture company (“Merged JV Company”) and 75% of the share capital in the Merged JV Company will continue to be allocated to Katanga’s wholly owned subsidiaries and 25% to Gécamines. Gécamines’ interest is non-dilutable. The merger of the DCP and KCC joint ventures is conditional on Presidential approval.

Gécamines and the Merged JV Company also defined an exploration programme through to 2014 that will enable Gécamines to seek replacement reserves of copper and cobalt tonnages for Katanga. The agreed budget of US\$20 million will be financed by the Merged JV Company through interest free loans to Gécamines. Repayment of these loans will be set off against the dividends and royalties otherwise due to Gécamines from the Merged JV Company.

The term of the JVA extends until 2025, subject thereafter to two automatic renewal terms of ten years each time and the Company's right to terminate the JVA if there is a change of law in the DRC which materially impacts the economic profitability of the project for the Company or affects its rights under the JVA.

The main terms of the new JVA are:

Transfers of Exploitation Permits, Infrastructure and Other Necessary Surfaces

The parties agreed the perimeters of the transfers of the KCC/DCP concession area deposits. This included the following permits which transferred from Gécamines/DCP to the Merged JV Company:

- Kamoto Underground and Mashamba East deposits - 13 carrés (1 carré = 84.955 hectares);
- T17 deposit - 2 carrés;
- Kananga deposit - 13 carrés;
- the extension of the Kananga deposit - 1 carré;
- KOV deposit - 10 carrés;
- Tilwezembe deposit - 9 carrés; and
- potentially, one or several further Exploitation Permits that are part of the future development plan.

It was also agreed with Gécamines that all installations and infrastructures within the perimeter of the KCC/DCP concession area be rented by Gécamines to the Merged JV Company for an annual lease payment of \$1.8 million, with rental being covered by the royalties. Katanga agreed that the KZC concentrator at Kolwezi was to be returned to Gécamines.

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25. JOINT VENTURE AGREEMENT (“JVA”) (Continued)

Transfers of Exploitation Permits, Infrastructure and Other Necessary Surfaces (Continued)

The DCP exploitation permits were transferred to the Merged JV Company as part of the merger process.

As set out in the agreement between Gécamines, KFL Limited and KCC dated February 8, 2008, relating to the release of the Dikuluwe and Mashamba West deposits (“Concession Release Agreement”), the perimeter of the merged the KCC/DCP concession area will contain the surface necessary for the proper operation of the current activities of the merged joint venture company, including space for dumps, storage sites, tailings and new infrastructure (the “Necessary Surfaces”). The Necessary Surfaces which have been determined in the JVA, shall be rented to the Merged JV Company once drillings have confirmed that the Necessary Surfaces contain no mineral reserves. If reserves are discovered, the relevant surfaces shall be transferred (or in certain cases leased) to the Merged JV Company.

The Merged JV Company will have an option, within three years following the merger of KCC and DCP, to increase, without payment of any additional compensation, the necessary surfaces by 5 carrés if such extension is required for the project. If the option has not been exercised by the Merged JV Company within the three year period, then should Gécamines thereafter wish to dispose of such carrés to a third party, the Merged JV Company has a pre-emptive right on the same terms and conditions as offered by that third party.

Replacement Deposits

Gécamines has the right to undertake exploration activities to find replacement reserves of some 3,992,185 tonnes of copper and 205,629 tonnes of cobalt. Such exploration activities can take place within and outside the exploitation permits being transferred to the Merged JV Company. Any deposits found within the perimeters of the exploitation permits transferred or to be transferred to the Merged JV Company (other than the deposits, or extension of the deposits at Kamoto, Mashamba East, Tilwezembe, Kananga, T17 and KOV) shall be considered as replacement reserves, as well as any other deposits discovered in other perimeters belonging to Gécamines the exploitation of which may be transferred to the Merged JV Company.

As at July 1, 2015, to the extent that there is a shortfall in replacement deposits, the parties shall calculate the proportion of the shortfall and the financial compensation payable shall be calculated as the shortfall percentage multiplied by \$285,000. This amount of \$285,000 was arrived at by discounting back to July 1, 2015 the net cash flows attributable to the mining of the reserves, excluding resources, returned to Gécamines. Any amounts not paid at that time shall bear interest at the rate of 6 month LIBOR, such rate increased by 3 per cent being applicable to any amounts remaining unpaid as at August 31, 2016. Any future payments of dividends and royalties due after July 1, 2015 from the Merged JV Company to Gécamines can be withheld and set off against any outstanding amounts.

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25. JOINT VENTURE AGREEMENT (“JVA”) (Continued)

Share Capital and Financing

The share capital of KCC was increased to US\$100 million. It was agreed that the 25% equity interest of Gécamines and its subsidiary shall be non-dilutable.

Dividends are to be distributed proportionate to the equity stakes of the shareholders in the merged joint venture company. Of the available cash flows of the Merged JV Company, 25% shall be used to pay dividends and 75% shall be used to repay shareholder and other borrowings.

Following the establishment of the Merged JV Company, 5% of the future funding requirements of the Merged JV Company are to be met by non-interest bearing equity financing from KFL and Global Enterprises Corporate Limited (“GEC”). In respect of the remaining 95% of future funding requirements granted to KCC after July 25, 2009, the Company will pay for all interest costs above a rate of LIBOR plus 3% that the Merged JV Company has to pay under such future funding arrangements as well as the other non-recurring finance costs.

The Company’s obligations in this respect will terminate upon the project achieving a production rate of 150,000 tonnes of copper per year.

Rental, Royalty and Pas de Porte

A royalty shall be payable to Gécamines by the Merged JV Company for the use of the equipment and facilities as well as the depletion of the deposits. This rate is set at 2.5% of net revenues calculated in the same manner as royalties payable under the DRC Mining Code, namely sales less transportation, quality control, insurance and marketing costs.

A “*pas de porte*” (“entry premium”) obligation shall be payable by KFL/GEC to Gécamines for the access to the project. The total amount payable is \$140,000, of which \$20,000 has been paid (including \$5,000 paid upon effective transfer of the exploitation permits from Gécamines to KCC); \$24,500 has been deducted representing Gécamines’ outstanding share capital contribution to KCC and the balance is payable in instalments on an agreed schedule until 2016, subject to the merger of DCP and KCC becoming effective. The full net present value of the payment was recognized in the Company’s 2009 consolidated financial statements and capitalized to mineral interests. This amount will be amortized over the life of the mine (refer to note 10).

No further *pas de porte* will be payable in respect of the replacement reserves to compensate for the release of Dikuluwe and Mashamba West; however, any additional tonnage brought by Gécamines to the merged joint venture company after the released deposits have been fully compensated will incur a new *pas de porte* payment of US\$35 per tonne of copper (in whole units).