

KATANGA MINING LIMITED

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2010**

KATANGA MINING LIMITED

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Expressed in thousands of US dollars, except per share amounts)

	Note	Three months ended June 30, 2010 \$	June 30, 2009 \$	Six months ended June 30, 2010 \$	June 30, 2009 \$
Sales revenue	11	115,153	62,250	255,901	109,308
Cost of sales		(71,916)	(61,762)	(142,747)	(119,679)
Royalties and transportation costs		(18,233)	(5,965)	(35,543)	(24,792)
Depreciation and amortization		(20,265)	(9,813)	(33,792)	(18,695)
		4,739	(15,290)	43,819	(53,858)
Other income (expenses)					
General and administrative		(1,372)	(3,913)	(3,654)	(8,286)
Restructuring expenses, net	12	-	(15,887)	-	(25,951)
Debenture interest		(4,626)	(4,550)	(9,418)	(8,254)
Interest income		46	49	82	206
Foreign exchange gain (loss) and other income (expenses)	13	3,192	(15,674)	(961)	(12,113)
Income (loss) before income taxes		1,979	(55,265)	29,868	(108,256)
Recovery of (provision for) income taxes		30	(2,190)	(266)	(2,417)
Net and comprehensive income (loss) for the period		2,009	(57,455)	29,602	(110,673)
Basic and diluted income (loss) per common share		\$0.00	\$(0.09)	\$0.02	\$(0.27)
Weighted average number of common shares outstanding		1,907,380,413	613,312,434	1,907,380,413	410,940,904

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

KATANGA MINING LIMITED
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Expressed in thousands of US dollars)

	Note	As at June 30, 2010 \$	As at December 31, 2009 \$
ASSETS			
Current			
Cash		97,728	77,243
Restricted cash	3	11,367	11,455
Accounts receivable		32,788	58,379
Inventories	4	100,225	92,434
Prepaid expenses and other current assets		33,315	28,180
		275,423	267,691
Non-current			
Property, plant and equipment	5	1,546,692	1,481,904
Restricted cash	3	2,000	2,000
Future income tax assets		63	56
		1,824,178	1,751,651
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	166,835	122,204
Unearned revenue	11	12,779	14,600
		179,614	136,804
Non-current			
Debentures payable	8	113,852	112,929
Other long-term liabilities	7	55,231	56,291
Asset retirement obligations		5,169	4,964
Restricted stock units	10	31	47
Future income tax liabilities		163,630	163,630
		517,527	474,665
SHAREHOLDERS' EQUITY			
Capital stock	9	190,750	190,750
Warrants	9	5,809	5,809
Contributed surplus		2,540,086	2,540,023
Deficit		(1,429,994)	(1,459,596)
		1,306,651	1,276,986
		1,824,178	1,751,651
Guarantees – Note 3			
Commitments – Note 15			

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Expressed in thousands of US dollars)

Six months ended June 30, 2010 and for the year ended December 31, 2009

	Number of shares	Capital stock \$	Warrants \$	Contributed surplus \$	Equity component of convertible debt \$	Deficit \$	Total \$
Balance at January 1, 2009	206,320,802	20,644	5,809	2,174,787	2,716	(1,351,596)	852,360
Options vested during the year	-	-	-	5,246	-	-	5,246
Performance awards vested during the year	-	-	-	61	-	-	61
Equity component of refinanced convertible debt	-	-	-	-	5,065	-	5,065
Shares issued on conversion of convertible debt	971,023,329	97,102	-	173,133	-	-	270,235
Reclassification of equity component of convertible debt	-	-	-	7,781	(7,781)	-	-
Shares issued in rights offering	718,036,282	71,804	-	173,432	-	-	245,235
Shares issued on acquisition of Kamoto Operating Limited	12,000,000	1,200	-	5,583	-	-	6,783
Net loss for the year	-	-	-	-	-	(108,000)	(108,000)
Balance at December 31, 2009	1,907,380,413	190,750	5,809	2,540,023	-	(1,459,596)	1,276,986
Options vested during the period	-	-	-	63	-	-	63
Net income for the period	-	-	-	-	-	29,602	29,602
Balance at June 30, 2010	1,907,380,413	190,750	5,809	2,540,086	-	(1,429,994)	1,306,651

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Expressed in thousands of US dollars)

	Three months ended June 30, 2010 \$	June 30, 2009 \$	Six months ended June 30, 2010 \$	June 30, 2009 \$
Cash flows from operating activities				
Net income (loss) for the period	2,009	(57,455)	29,602	(110,673)
Add (deduct):				
Depreciation and amortization	20,265	9,813	33,792	18,695
Non-cash restructuring expenses	-	12,785	-	12,785
Stock-based compensation	-	909	32	2,077
Debenture interest	4,626	4,550	963	1,012
Unrealized foreign exchange (gain) loss	(3,408)	9,706	159	5,199
Convertible debt accretion	-	5,421	-	6,197
Asset retirement obligation accretion	103	107	205	209
Loss on disposal of property, plant and equipment	651	-	636	-
Net derivative gain	-	-	-	(48)
Future income taxes	(7)	2,190	(7)	2,417
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable	20,490	(17,574)	25,591	(41,122)
(Increase) decrease in prepaid expenses and other current assets	(11,857)	5,475	(7,065)	720
Increase in inventories	(18,883)	(22,758)	(10,806)	(27,228)
Increase in accounts payable, accrued liabilities and unearned revenue	26,997	7,321	40,207	18,913
	40,986	(39,510)	113,309	(110,847)
Cash flows from investing activities				
Additions to property, plant and equipment	(62,863)	(12,497)	(94,058)	(49,071)
Proceeds from disposals of property, plant and equipment	994	-	1,027	-
Restricted cash	(8,367)	(8,138)	88	(513)
	(70,236)	(20,635)	(92,943)	(49,584)
Cash flows from financing activities				
Proceeds from convertible debt	-	-	-	100,000
Proceeds from rights offering, net of issue costs and repayment of bridge facility	-	170,568	-	170,568
	-	170,568	-	270,568
(Decrease) increase in cash	(29,250)	110,423	20,366	110,137
Cash and cash equivalents, beginning of period	126,695	31,787	77,243	31,824
Effect of exchange rate changes on cash held in foreign currencies	283	(531)	119	(282)
Cash, end of period	97,728	141,679	97,728	141,679
Supplementary cash flow information				
Interest paid	-	383	8,455	7,625
Income taxes paid	-	-	206	690
Non-cash financing activities				
Shares issued on conversion of convertible debenture	-	270,235	-	270,235

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

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

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"), is engaged in copper and cobalt mining and related activities in the Democratic Republic of Congo ("DRC"). KCC is engaged in the exploration, mining, refurbishment, rehabilitation and operation of the Kamoto/Mashamba East mining complex, the KOV copper and cobalt mine, various oxide open pit resources, the Kamoto Concentrator and the Luilu metallurgical Plant (collectively, the "Project"), in the DRC.

The Company has prepared an Accelerated Development Plan with an initial 150,000 tonnes per annum ("tpa") copper production target by the second quarter of 2011. Thereafter, the Company aims to continue the ramp-up to 310,000 tpa copper production and is conducting a Scoping and Engineering Study currently to review the optimum process for reaching this capacity.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited interim consolidated financial statements have been prepared by management of the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of the financial statements is based upon accounting policies and practices consistent with those used in the preparation of the 2009 annual audited consolidated financial statements. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Notes to the Company's 2009 annual audited consolidated financial statements, since they do not contain all disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented. The results of operations and cash flows for the current periods are not necessarily indicative of the results to be expected for the full year.

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.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

Future changes in accounting policies

Business Combinations

In December 2008, the CICA issued Handbook Section 1582, Business Combinations (“Section 1582”), which replaces Handbook Section 1581, Business Combinations, and Handbook Section 1601, Consolidated Financial Statements and Handbook Section 1602, Non-Controlling Interests (“Section 1602”), which replace Handbook Section 1600, Consolidated Financial Statements. These new sections are effective January 1, 2011 with earlier adoption permitted.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. The application of these sections is expected to have no effect on the consolidated financial statements. The Company has not early adopted these sections; however, should the Company engage in a future business combination, it would consider early adoption.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, “Multiple Deliverable Revenue Arrangements” to provide guidance on revenue recognition on contracts which provide multiple products, services, rights to use assets, or any combination thereof. This is effective for fiscal years beginning on or after January 2011. The application of this EIC would have no effect on the consolidated financial statements.

International Financial Reporting Standards (“IFRS”)

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. Katanga expects its first consolidated financial statements presented in accordance with IFRS to be for the three month period ending March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS.

In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan and is currently undertaking activities according to plan. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company’s quarterly and annual consolidated financial statements and related notes effective January 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

3. RESTRICTED CASH

	As at June 30, 2010 \$	As at December 31, 2009 \$
Guarantees ⁽¹⁾	5,000	5,000
Debenture interest ⁽²⁾	8,367	8,455
Restricted cash, end of period	13,367	13,455

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

⁽²⁾ Semi-annual debenture interest held in trust before payment to debenture-holders after June 30, 2010 and December 31, 2009.

4. INVENTORIES

	As at June 30, 2010 \$	As at December 31, 2009 \$
Ore in stockpiles	21,597	24,260
Work in progress	3,272	6,359
Finished product	9,746	20,785
Product inventories	34,615	51,404
Consumables	65,610	41,030
Total inventories	100,225	92,434

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

5. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization and depreciation \$	Carrying amount \$
As at June 30, 2010			
Mineral interests			
Capitalized development expenditures ¹	776,648	-	776,648
Assets subject to amortization	353,269	16,533	336,736
Total	1,129,917	16,533	1,113,384
Other property, plant and equipment			
Plant and equipment	403,906	50,120	353,786
Computer equipment and software	6,466	3,886	2,580
Furniture and fixtures	2,821	1,792	1,029
Land and buildings	24,165	2,261	21,904
Vehicles	37,549	14,370	23,179
Closure and restoration costs	2,039	264	1,775
Leasehold improvements	10,274	2,087	8,187
Assets under construction	20,868	-	20,868
Total	508,088	74,780	433,308
Total property, plant and equipment	1,638,005	91,313	1,546,692
As at December 31, 2009			
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 and software	6,880	3,350	3,530
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

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

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at June 30, 2010 \$	As at December 31, 2009 \$
Trade payables and accruals	125,905	81,274
Other accruals ⁽¹⁾	40,930	40,930
Accounts payable and accrued liabilities, end of period	166,835	122,204

⁽¹⁾ 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. The Company recorded an accrual based on legal obligations incurred relating to work carried out on terminated contracts at the time of termination. The balance outstanding at June 30, 2010 and December 31, 2009 represented the remaining estimated amounts to be settled.

7. OTHER LONG-TERM LIABILITIES

Pursuant to the terms of the new Joint Venture Agreement a “*pas de porte*” (“entry premium”) obligation shall be payable to La Générale des Carrières et des Mines (“Gécamines”) for access to the Project. The total amount of \$140,000 is payable in installments on an agreed upon schedule until 2016. Of the \$140,000, \$20,000 has already been paid and \$24,500 has been deducted from the payable representing Gécamines’ outstanding share capital contribution to KCC. The 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 are discounted at the Company’s cost of capital of 14% per annum.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

8. 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"). Each Warrant entitles the holder to purchase 1.28 common shares of the Company anytime within five years from the closing date at Canadian \$8.50 per Warrant. 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. 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.

During the six months ended June 30, 2010, \$8,455 of interest was paid in relation to the interest due for the six months ended December 31, 2009 on the debentures (six months ended June 30, 2009 - \$7,242 for interest due for the six months ended December 31, 2008).

The debentures payable balance is comprised of the following as at June 30, 2010 and December 31, 2009:

	Six months ended June 30, 2010 \$	Year ended December 31, 2009 \$
Debenture payable, beginning of period	112,929	94,520
Changes during the period:		
Accretion	764	1,540
Foreign exchange translation loss ⁽¹⁾	159	16,869
Debentures payable, end of period	113,852	112,929

⁽¹⁾ The foreign exchange translation loss 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 relative 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.

For the three months ended June 30, 2010 accretion was \$384 (three months ended June 30, 2009 - \$384) and there was a foreign exchange translation gain of \$3,408 (three months ended June 30, 2009 - \$8,089 loss).

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

9. CAPITAL STOCK

(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 six months ended June 30, 2010:

Expiry date	Exercise price ⁽¹⁾	Outstanding December 31, 2009	Issued during the period	Exercised/ expired during the period	Outstanding June 30, 2010
November 20, 2011	\$8.50	3,966,400	-	-	3,966,400

⁽¹⁾ Denominated in Canadian dollars.

(c) STOCK OPTIONS

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

	Number of stock options	Weighted Exercise Price per Share ⁽¹⁾
Outstanding at January 1, 2009	5,515,686	\$11.95
Forfeited during the year	(1,065,000)	\$10.92
Outstanding at December 31, 2009	4,450,686	\$12.20
Movement during the period	-	-
Outstanding at June 30, 2010	4,450,686	\$12.20

⁽¹⁾ Denominated in Canadian dollars.

During the six months ended June 30, 2010 and 2009, there were no options granted pursuant to the Company's stock option plan and none were exercised.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

9. CAPITAL STOCK (continued)

(c) STOCK OPTIONS (continued)

The following table summarizes the stock options outstanding at June 30, 2010:

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	400,000	-
\$12.81	April 1, 2012	25,000	-
\$15.97	May 6, 2012	25,000	-
\$16.29	May 9, 2012	100,000	-
\$18.09	July 1, 2012	50,000	-
\$14.61	December 5, 2012	1,083,333	16,667
\$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	33,333	16,667
\$13.25	April 30, 2013	33,333	16,667
\$10.50	August 14, 2013	16,667	33,333
		4,367,352	83,334

⁽¹⁾ Denominated in Canadian dollars.

⁽²⁾ The aggregate fair value of these unvested options not yet charged to operations is Canadian \$1,041.

The weighted average exercise price of the exercisable options is Canadian \$12.19 and the outstanding unvested options Canadian \$12.49.

(d) DILUTED EARNINGS PER SHARE

Total stock options of 4,450,686 (2009 – 4,985,686) and warrants of 3,966,400 (2009 – 3,966,400) were excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares for the six months ended June 30, 2010, of Canadian \$0.89 (2009 – Canadian \$0.40)

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

10. RESTRICTED STOCK UNITS (“RSUs”)

The following table reflects the continuity of RSUs during the six months ended June 30, 2010 and the year ended December 31, 2009:

	June 30, 2010		December 31, 2009	
	Number of RSUs	\$	Number of RSUs	\$
Restricted stock units, beginning of the period	70,531	47	324,634	66
Vested	(21,096)	(21)	(205,436)	(85)
Forfeited	-	-	(48,667)	(20)
Effect of changes in the Company's share price	-	4	-	39
Effect of changes in foreign exchange rates	-	1	-	47
Restricted stock units, end of the period	49,435	31	70,531	47

11. SALES

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Copper	83,323	47,850	177,676	75,632
Cobalt	29,539	14,028	67,144	24,941
Copper concentrate	2,291	-	11,081	-
Cobalt concentrate	-	372	-	8,735
Sales, end of period	115,153	62,250	255,901	109,308

Copper, cobalt and concentrate sales are made under various sales agreements. Sales are made at a provisional price in the month of shipment with final pricing based on average copper and cobalt prices at a specified period as stated in the relevant sales agreement. At each reporting date, 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, with adjustments being recorded in sales revenue in the consolidated statement of income (loss) and accounts receivable on the consolidated balance sheet. The mark-to-market loss for the three months ended June 30, 2010, was \$15,562 (mark-to-market gain for the three months ended June 30, 2009, \$6,380) with a corresponding decrease in accounts receivable.

As at June 30, 2010, the Company recognized an unearned revenue balance of \$12,779 on copper and cobalt sales (December 31, 2009 - \$14,600) due to advance payments received as a result of contractual obligations to invoice upon shipment of goods from the mine site. Sales revenue is not recognized in the consolidated statement of income until title and ownership has transferred.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three and six months ended June 30, 2010 and 2009

12. RESTRUCTURING EXPENSES

The following represent amounts incurred as part of the restructuring of the Company's operations, which the Company was required to complete in order to comply with the new joint venture agreement in addition to the implementation of a new mine plan and the reduction of the Company's non-core overheads.

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Net gain (loss) on termination and settlement of construction services contracts for SX/EW plant ⁽¹⁾	-	1,377	-	(8,687)
Loss on return of assets to Gécamines ⁽²⁾	-	(5,141)	-	(5,141)
Termination of Kamoto Operating Limited operating agreement ⁽³⁾	-	(7,644)	-	(7,644)
Employee termination costs ⁽⁴⁾	-	(4,479)	-	(4,479)
	-	(15,887)	-	(25,951)

(1) The net gain on settlement in the three months ended June 30, 2009 represents the gains net of losses incurred on contracts settled in the second quarter of 2009 relative to their respective recorded accruals.

(2) As part of the merger of the KCC and DRC Copper and Cobalt Project SARL ("DCP") Joint Ventures, the KZC concentrator at Kolwezi was returned to Gécamines.

(3) As part of the merger of the KCC and DCP Joint Ventures, the operating agreement with Kamoto Operating Limited was terminated. The expenses related thereto were \$7,644.

(4) Employee termination costs represent costs incurred to terminate employees as a result of the deferral of the SX/EW plant expansion.

13. FOREIGN EXCHANGE GAIN (LOSS) AND OTHER INCOME (EXPENSES)

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	\$	\$	\$	\$
Foreign exchange gain (loss)	3,691	(9,706)	(40)	(5,199)
Net derivative gain	-	-	-	48
Interest expense	(499)	(547)	(921)	(765)
Convertible debt accretion	-	(5,421)	-	(6,197)
	3,192	(15,674)	(961)	(12,113)

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Three and six months ended June 30, 2010 and 2009

14. RELATED PARTY TRANSACTIONS

All related party transactions, other than the financing transactions with the Company's parent company, Glencore International AG ("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:

	Three months ended		Six months ended	
	June 30, 2010 \$	June 30, 2009 \$	June 30, 2010 \$	June 30, 2009 \$
Purchases from related parties				
La Générale des Carrières et des Mines	3,127	1,159	6,432	2,049
Mopani Copper Mine Plc	9,298	-	13,473	-
Xstrata Queensland Ltd	2,894	4,944	2,894	4,944
Purchases from former related parties				
Enterprise Generale Malta Forrest SPRL	-	20,055	-	28,829
Bateman Engineering N.V	-	4,617	-	4,617
Sales to related parties				
Mutanda ya Mukonkota Mining SPRL	167	-	287	-
Glencore International AG ⁽¹⁾	112,864	97,396	244,821	104,013
Mopani Copper Mine Plc	2,291	-	11,081	-
Sales to former related parties				
Enterprise Generale Malta Forrest SPRL	-	-	-	3,807

	As at June 30, 2010 \$	As at December 31, 2009 \$
Amounts owed to related parties		
La Générale des Carrières et des Mines	8,459	-
Glencore International AG	3,822	178
Mopani Copper Mine Plc	3,063	-
Xstrata Queensland Ltd	1,915	1,915
Amounts owed by related parties		
La Générale des Carrières et des Mines	6,462	806
Mopani Copper Mine Plc	1,240	5,190
Mutanda ya Mukonkota Mining SPRL	383	24
Glencore International AG	26,521	44,774

⁽¹⁾ 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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15. COMMITMENTS

The following table summarizes the Company's contractual and other obligations as at June 30, 2010.

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Payments due by period	\$	\$	\$	\$	\$
Capital expenditure commitments ⁽¹⁾	44,106	44,106	-	-	-
Debentures payable ⁽²⁾	175,723	16,676	33,399	125,648	-
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

⁽¹⁾ The capital expenditure commitments relate to Phase III of the Project. Phase III commenced in 2009 and is expected to increase production to 150,000 tonnes of copper per annum by the end of the second quarter of 2011. It is expected that Phase III will be funded from 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 upon schedule until 2016. Of the \$140,000, \$20,000 has already been paid and \$24,500 has been deducted from these payables representing Gécamines' outstanding share capital contribution to KCC (see note 7).

⁽⁴⁾ Pursuant to the terms of the New Joint Venture Agreement all installations and infrastructures within the perimeter of the KCC concession area shall be rented for an annual lease payment to Gécamines of \$1,800.

Guarantees are disclosed in Note 3.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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16. SEGMENTED INFORMATION

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

	Corporate \$	Operations in DRC \$	Total \$
As at June 30, 2010			
Total assets	83,650	1,740,528	1,824,178
As at December 31, 2009			
Total assets	95,909	1,655,742	1,751,651
Three months ended June 30, 2010			
Sales revenue	-	115,153	115,153
Net (loss) income	(2,302)	4,311	2,009
Depreciation and amortization	(71)	(20,194)	(20,265)
Interest income	46	-	46
Debenture interest	(4,626)	-	(4,626)
Recovery of income taxes	-	30	30
Additions to property, plant and equipment	18	62,845	62,863
Three months ended June 30, 2009			
Sales revenue	-	62,250	62,250
Net loss	(13,640)	(43,815)	(57,455)
Depreciation and amortization	(144)	(9,669)	(9,813)
Interest income	49	-	49
Debenture interest	(4,550)	-	(4,550)
Provision for income taxes	(378)	(1,812)	(2,190)
Additions to property, plant and equipment	-	12,497	12,497

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Three and six months ended June 30, 2010 and 2009

16. SEGMENTED INFORMATION (continued)

	Corporate \$	Operations in DRC \$	Total \$
Six months ended June 30, 2010			
Sales revenue	-	255,901	255,901
Net (loss) income	(13,041)	42,643	29,602
Depreciation and amortization	(146)	(33,646)	(33,792)
Interest income	82	-	82
Debenture interest	(9,418)	-	(9,418)
Provision for income taxes	-	(266)	(266)
Additions to property, plant and equipment	299	93,759	94,058
Six months ended June 30, 2009			
Sales revenue	-	109,308	109,308
Net loss	(21,206)	(89,467)	(110,673)
Depreciation and amortization	(324)	(18,371)	(18,695)
Interest income	206	-	206
Debenture interest	(8,254)	-	(8,254)
Provision for income taxes	(378)	(2,039)	(2,417)
Additions to property, plant and equipment	33	49,038	49,071