

**KATANGA MINING LIMITED**

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

# **KATANGA MINING LIMITED**

## **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30,		Nine months ended September 30,	
		2010 \$	2009 \$	2010 \$	2009 \$
Sales revenue	11	129,351	76,247	385,252	185,555
Cost of sales		(68,741)	(55,833)	(211,488)	(175,512)
Royalties and transportation costs		(17,165)	(11,090)	(52,708)	(35,882)
Depreciation and amortization		(13,185)	(7,273)	(46,977)	(25,968)
		<b>30,260</b>	<b>2,051</b>	<b>74,079</b>	<b>(51,807)</b>
<b>Other income (expenses)</b>					
General and administrative		(2,105)	(3,179)	(5,759)	(11,465)
Restructuring income (expenses), net	12	-	756	-	(25,195)
Debenture interest		(4,627)	(4,397)	(14,045)	(12,651)
Interest income		93	882	175	1,088
Foreign exchange loss and other expenses	13	(2,378)	(8,294)	(3,339)	(20,407)
<b>Income (loss) before income taxes</b>		<b>21,243</b>	<b>(12,181)</b>	<b>51,111</b>	<b>(120,437)</b>
Provision for income taxes		(161)	(420)	(427)	(2,837)
<b>Net and comprehensive income (loss) for the period</b>		<b>21,082</b>	<b>(12,601)</b>	<b>50,684</b>	<b>(123,274)</b>
Basic and diluted income (loss) per common share					
		<b>\$0.01</b>	<b>\$(0.01)</b>	<b>\$0.03</b>	<b>\$(0.14)</b>
Weighted average number of common shares outstanding					
		<b>1,907,380,413</b>	<b>1,871,765,520</b>	<b>1,907,380,413</b>	<b>903,233,449</b>

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 September 30, 2010 \$	As at December 31, 2009 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		46,445	77,243
Restricted cash	3	5,000	11,455
Accounts receivable		70,469	58,379
Inventories	4	100,540	92,434
Prepaid expenses and other current assets		50,609	28,180
		<b>273,063</b>	<b>267,691</b>
Property, plant and equipment, net	5	1,589,778	1,481,904
Restricted cash	3	-	2,000
Future income tax assets		66	56
		<b>1,862,907</b>	<b>1,751,651</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	6	178,956	122,204
Unearned revenue	11	15,766	14,600
		<b>194,722</b>	<b>136,804</b>
Debentures payable	8	116,449	112,929
Other long-term liabilities	7	54,702	56,291
Asset retirement obligations		5,272	4,964
Restricted stock units	10	65	47
Future income tax liabilities		163,630	163,630
		<b>534,840</b>	<b>474,665</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	9	190,750	190,750
Warrants	9	5,809	5,809
Contributed surplus		2,540,420	2,540,023
Deficit		(1,408,912)	(1,459,596)
		<b>1,328,067</b>	<b>1,276,986</b>
		<b>1,862,907</b>	<b>1,751,651</b>
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)

Nine months ended September 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	-	-	245,236
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)
<b>Balance at December 31, 2009</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>5,809</b>	<b>2,540,023</b>	<b>-</b>	<b>(1,459,596)</b>	<b>1,276,986</b>
Options vested during the period	-	-	-	397	-	-	397
Net income for the period	-	-	-	-	-	50,684	50,684
<b>Balance at September 30, 2010</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>5,809</b>	<b>2,540,420</b>	<b>-</b>	<b>(1,408,912)</b>	<b>1,328,067</b>

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)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>				
Net income (loss) for the period	21,082	(12,601)	50,684	(123,274)
Add (deduct):				
Depreciation and amortization	13,185	7,273	46,977	25,968
Non-cash restructuring (gain) expenses	-	(758)	-	12,027
Stock-based compensation	269	398	301	2,475
Debenture interest	(3,740)	(3,741)	(2,777)	(2,729)
Unrealized foreign exchange loss	2,592	7,759	2,751	12,958
Convertible debt accretion	-	-	-	6,197
Asset retirement obligation accretion	102	106	307	315
Loss on disposal of property, plant and equipment	948	-	1,584	-
Net derivative gain	-	-	-	(48)
Future income taxes	(3)	(1,749)	(10)	668
Changes in non-cash working capital:				
(Increase) decrease in accounts receivable	(37,681)	11,544	(12,090)	(29,578)
(Increase) decrease in prepaid expenses and other current assets	(17,294)	7,806	(24,359)	8,526
Increase in inventories	1,199	(21,939)	(9,607)	(49,167)
Increase (decrease) in accounts payable and accrued liabilities	15,226	(40,453)	57,254	(24,965)
Increase (decrease) in unearned revenue	2,987	(2,440)	1,166	985
	<b>(1,128)</b>	<b>(48,795)</b>	<b>112,181</b>	<b>(159,642)</b>
<b>Cash flows from investing activities</b>				
Additions to property, plant and equipment	(60,041)	(20,812)	(154,099)	(69,883)
Proceeds from disposals of property, plant and equipment	2,020	-	3,047	-
Restricted cash	8,367	6,138	8,455	5,625
	<b>(49,654)</b>	<b>(14,674)</b>	<b>(142,597)</b>	<b>(64,258)</b>
<b>Cash flows from financing activities</b>				
Proceeds from convertible debt	-	-	-	100,000
Proceeds from rights offering, net of issue costs and repayment of bridge facility	-	74,658	-	245,226
	<b>-</b>	<b>74,658</b>	<b>-</b>	<b>345,226</b>
<b>(Decrease) increase in cash</b>	<b>(50,782)</b>	<b>11,189</b>	<b>(30,416)</b>	<b>121,326</b>
Cash, beginning of period	97,728	141,679	77,243	31,824
Effect of exchange rate changes on cash held in foreign currencies	(501)	(76)	(382)	(358)
Cash, end of period	<b>46,445</b>	<b>152,792</b>	<b>46,445</b>	<b>152,792</b>
<b>Supplementary cash flow information</b>				
Interest paid	8,367	8,138	16,822	15,380
Income taxes paid	117	1,037	323	1,727
<b>Non-cash financing activities</b>				
Shares issued on conversion of convertible debt	-	-	-	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 nine months ended September 30, 2010 and 2009

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### 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.

### 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 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 Canadian 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 nine months ended September 30, 2010 and 2009

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### 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 is not expected to have a significant 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. 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 fully able to describe or quantify all of those effects but it has identified standards that will have a qualitative / quantitative effect on the financial results.

# 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 nine months ended September 30, 2010 and 2009

### 3. RESTRICTED CASH

	As at September 30, 2010 \$	As at December 31, 2009 \$
Guarantees <sup>(1)</sup>	5,000	5,000
Debenture interest <sup>(2)</sup>	-	8,455
<b>Total restricted cash</b>	<b>5,000</b>	<b>13,455</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Semi-annual debenture interest held in trust before payment to debenture-holders after December 31, 2009.

### 4. INVENTORIES

	As at September 30, 2010 \$	As at December 31, 2009 \$
Ore in stockpiles	26,288	24,260
Work in progress	7,141	6,359
Finished product	9,652	20,785
Product inventories	43,081	51,404
Consumables	57,459	41,030
<b>Total inventories</b>	<b>100,540</b>	<b>92,434</b>

# 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 nine months ended September 30, 2010 and 2009

### 5. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization and depreciation \$	Carrying amount \$
<b>As at September 30, 2010</b>			
<b>Mineral interests</b>			
Capitalized development expenditures	712,008	-	712,008
Assets subject to amortization	481,106	18,859	462,247
<b>Total</b>	<b>1,193,114</b>	<b>18,859</b>	<b>1,174,255</b>
<b>Other property, plant and equipment</b>			
Plant and equipment	416,244	61,320	354,924
Computer equipment and software	6,475	4,331	2,144
Furniture and fixtures	2,821	1,956	865
Land and buildings	24,165	2,679	21,486
Vehicles	38,049	15,008	23,041
Closure and restoration costs	2,039	356	1,683
Leasehold improvements	10,274	2,437	7,837
Assets under construction	3,543	-	3,543
<b>Total</b>	<b>503,610</b>	<b>88,087</b>	<b>415,523</b>
<b>Total property, plant and equipment</b>	<b>1,696,724</b>	<b>106,946</b>	<b>1,589,778</b>
<b>As at December 31, 2009</b>			
<b>Mineral interests</b>			
Capitalized development expenditures	956,930	-	956,930
Assets subject to amortization	120,811	8,917	111,894
<b>Total</b>	<b>1,077,741</b>	<b>8,917</b>	<b>1,068,824</b>
<b>Other property, plant and equipment</b>			
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
<b>Total</b>	<b>463,112</b>	<b>50,032</b>	<b>413,080</b>
<b>Total property, plant and equipment</b>	<b>1,540,853</b>	<b>58,949</b>	<b>1,481,904</b>

# 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 nine months ended September 30, 2010 and 2009

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at September 30, 2010 \$	As at December 31, 2009 \$
Trade payables and accruals	138,026	81,274
Other accruals <sup>(1)</sup>	40,930	40,930
<b>Total accounts payable and accrued liabilities</b>	<b>178,956</b>	<b>122,204</b>

<sup>(1)</sup> 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 September 30, 2010 and December 31, 2009 represents 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 instalments 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 nine months ended September 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 instalments 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.

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

	Nine months ended September 30, 2010	Year ended December 31, 2009
	\$	\$
Debenture payable, beginning of period	112,929	94,520
Changes during the period:		
Accretion	1,151	1,540
Foreign exchange translation loss <sup>(1)</sup>	2,369	16,869
<b>Debentures payable, end of period</b>	<b>116,449</b>	<b>112,929</b>

<sup>(1)</sup> 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 September 30, 2010, accretion was \$388 (three months ended September 30, 2009 - \$388) and there was a foreign exchange translation loss of \$2,210 (three months ended September 30, 2009 - \$6,997 loss).

For the three months ended September 30, 2010, interest paid was \$8,367 (three months ended September 30, 2009 - \$8,138). For the nine months ended September 30, 2010, interest paid was \$16,822 (nine months ended September 30, 2009 - \$15,380).

# 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 nine months ended September 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 nine months ended September 30, 2010:

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

<sup>(1)</sup> 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 <sup>(1)</sup>
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
Granted during the period	6,613,226	\$ 1.07
Outstanding at September 30, 2010	<b>11,063,912</b>	<b>\$ 5.55</b>

<sup>(1)</sup> Denominated in Canadian dollars.

During the nine months ended September 30, 2010, 6,613,226 stock options were granted pursuant to the Company's stock option plan with an average exercise price of Canadian \$1.07 (nine months ended September 30, 2009, no options granted). The values assigned to these options were calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, risk free rate of return 0.78% and expected maturity of 3 years. The weighted average grant date fair value of each option was Canadian \$0.65 and the total fair value assigned was Canadian \$4,274. The options vest on August 10, 2013.

# 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 nine months ended September 30, 2010 and 2009

### 9. CAPITAL STOCK (continued)

#### (c) STOCK OPTIONS (continued)

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

Exercise Price per Share <sup>(1)</sup>	Expiry Date	Exercisable Options	Outstanding unvested Options <sup>(2)</sup>	Total
\$4.10	January 17, 2011	30,000	-	30,000
\$7.40	April 18, 2011	783,333	-	783,333
\$6.15	July 6, 2011	200,000	-	200,000
\$6.00	July 9, 2011	185,000	-	185,000
\$7.30	December 17, 2011	400,000	-	400,000
\$12.81	April 1, 2012	25,000	-	25,000
\$15.97	May 6, 2012	25,000	-	25,000
\$16.29	May 9, 2012	100,000	-	100,000
\$18.09	July 1, 2012	50,000	-	50,000
\$14.61	December 5, 2012	1,083,333	16,667	1,100,000
\$14.77	January 24, 2013	500,000	-	500,000
\$16.10	July 16, 2016	702,376	-	702,376
\$16.10	September 24, 2016	97,056	-	97,056
\$16.10	January 8, 2017	71,763	-	71,763
\$16.10	March 28, 2017	31,158	-	31,158
\$13.59	April 28, 2013	33,333	16,667	50,000
\$13.25	April 30, 2013	33,333	16,667	50,000
\$10.50	August 14, 2013	33,333	16,667	50,000
\$1.07	August 11, 2020	-	6,613,226	6,613,226
		<b>4,384,018</b>	<b>6,679,894</b>	<b>11,063,912</b>

<sup>(1)</sup> Denominated in Canadian dollars.

<sup>(2)</sup> The aggregate fair value of these unvested options not yet charged to operations is \$3,817.

The weighted average exercise price of the exercisable options is Canadian \$12.18 and the outstanding unvested options Canadian \$1.19.

#### (d) DILUTED EARNINGS PER SHARE

Total stock options of 11,063,912 (2009 – 4,985,686) and warrants of 3,966,400 (2009 – 3,966,400) were anti-dilutive and accordingly 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 nine months ended September 30, 2010, of Canadian \$0.93 (2009 – Canadian \$0.40)

# KATANGA MINING LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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Three and nine months ended September 30, 2010 and 2009

### 10. RESTRICTED STOCK UNITS (“RSUs”)

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

	September 30, 2010		December 31, 2009	
	Number of RSUs	\$	Number of RSUs	\$
Restricted stock units, beginning of period	70,531	47	324,634	66
Vested	(22,762)	(22)	(205,436)	(85)
Forfeited	-	-	(48,667)	(20)
Effect of changes in the Company's share price	-	39	-	39
Effect of changes in foreign exchange rates	-	1	-	47
<b>Restricted stock units, end of period</b>	<b>47,769</b>	<b>65</b>	<b>70,531</b>	<b>47</b>

### 11. SALES REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Copper	91,617	58,404	269,293	134,036
Cobalt	33,155	20,139	100,299	45,080
Copper concentrate	4,579	-	15,660	-
Cobalt concentrate	-	(2,296)	-	6,439
<b>Sales, end of period</b>	<b>129,351</b>	<b>76,247</b>	<b>385,252</b>	<b>185,555</b>

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 gain for the three months ended September 30, 2010, was \$7,581 (mark-to-market gain for the three months ended September 30, 2009, \$1,020) with a corresponding increase in accounts receivable. The mark-to-market loss for the nine months ended September 30, 2010, was \$5,312 (mark-to-market gain for the nine months ended September 30, 2009, \$7,400) with a corresponding decrease in accounts receivable at September 30, 2010 and decrease at September 30, 2009.

As at September 30, 2010, the Company recognized an unearned revenue balance of \$15,766 on copper and cobalt sales (December 31, 2009 - \$14,600) due to advance payments received as a result of contractual rights to invoice upon shipment of goods from the mine site. Sales revenue is not recognized in the consolidated statement of income (loss) until title and ownership has transferred.

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### 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 September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Net loss on termination and settlement of construction services contracts for SX/EW plant <sup>(1)</sup>	-	-	-	(8,688)
Loss on return of assets to Gécamines <sup>(2)</sup>	-	-	-	(5,141)
Termination of Kamoto Operating Limited operating agreement <sup>(3)</sup>	-	859	-	(6,784)
Employee termination costs <sup>(4)</sup>	-	(103)	-	(4,582)
	-	<b>756</b>	-	<b>(25,195)</b>

(1) The net loss on settlement in the nine months ended September 30, 2009 represents the net losses incurred on contracts settled 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 \$6,784. The estimated loss on termination was accrued for at June 30, 2009. The gain recorded in the three months ended September 30, 2009 results from the difference between the estimated value of the consideration accrued at June 30, 2009 and the actual consideration paid. The difference arose due to movements in the Company's share price and the Canadian / US dollar exchange rate from June 30, 2009 to September 23, 2009, the date of termination.

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

### 13. FOREIGN EXCHANGE LOSS AND OTHER EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Foreign exchange loss	(1,038)	(8,025)	(1,078)	(13,224)
Net derivative gain	-	-	-	48
Interest expense	(1,340)	(269)	(2,261)	(1,034)
Convertible debt accretion	-	-	-	(6,197)
	<b>(2,378)</b>	<b>(8,294)</b>	<b>(3,339)</b>	<b>(20,407)</b>

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(UNAUDITED)

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### 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 September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Purchases from related parties</b>				
Gécamines	2,580	4,199	9,012	6,248
Glencore International AG	8,244	5,323	25,597	16,775
Mopani Copper Mine Plc	2,706	2,846	8,371	3,131
Xstrata Queensland Ltd	2	2,917	2,896	7,861
Mutanda ya Mukonkota Mining SPRL	6	82	6	82
<b>Purchases from former related parties</b>				
Enterprise Generale Malta Forrest SPRL	-	16,900	-	45,729
Bateman Engineering N.V	-	-	-	4,617
<b>Sales to related parties</b>				
Mutanda ya Mukonkota Mining SPRL	231	-	231	-
Glencore International AG <sup>(1)</sup>	124,772	76,247	369,592	185,555
Mopani Copper Mine Plc	13,370	-	24,451	-
<b>Sales to former related parties</b>				
Enterprise Generale Malta Forrest SPRL	-	7,714	-	13,009

	As at September 30, 2010 \$	As at December 31, 2009 \$
<b>Amounts owed to related parties</b>		
Gécamines	9,099	-
Glencore International AG	3,811	178
Mopani Copper Mine Plc	928	-
Xstrata Queensland Ltd	1,316	1,915
<b>Amounts owed by related parties</b>		
Gécamines	6,462	806
Mopani Copper Mine Plc	6,861	5,190
Mutanda ya Mukonkota Mining SPRL	207	24
Glencore International AG	42,348	44,774

<sup>(1)</sup> 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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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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Three and nine months ended September 30, 2010 and 2009

### 15. COMMITMENTS

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

<b>Payments due by period</b>	<b>Total</b>	<b>Less than</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5</b>
	<b>\$</b>	<b>1 year</b>	<b>\$</b>	<b>\$</b>	<b>years</b>
		<b>\$</b>			<b>\$</b>
Capital expenditure commitments <sup>(1)</sup>	33,323	33,323	-	-	-
Debentures payable <sup>(2)</sup>	174,697	16,985	34,016	123,696	-
Other long-term liabilities <sup>(3)</sup>	95,500	10,000	25,000	30,000	30,500
Gécamines lease <sup>(4)</sup>	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 per annum of copper production 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 instalments 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.

# KATANGA MINING LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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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 \$
<b>As at September 30, 2010</b>			
Total assets	50,950	1,811,957	1,862,907
<b>As at December 31, 2009</b>			
Total assets	95,909	1,655,742	1,751,651
<b>Three months ended September 30, 2010</b>			
Sales revenue	-	129,351	129,351
Net (loss) income	(9,073)	30,155	21,082
Depreciation and amortization	(74)	(13,111)	(13,185)
Interest income	5	88	93
Debt interest	(4,627)	-	(4,627)
Provision for income taxes	-	(161)	(161)
Additions to property, plant and equipment	9	60,032	60,041
<b>Three months ended September 30, 2009</b>			
Sales revenue	-	76,247	76,247
Net (loss) income	(17,747)	5,146	(12,601)
Depreciation and amortization	(198)	(7,075)	(7,273)
Interest income	547	335	882
Debt interest	(4,397)	-	(4,397)
Provision for income taxes	(362)	(58)	(420)
Additions to property, plant and equipment	42	20,770	20,812

# 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 nine months ended September 30, 2010 and 2009

### 16. SEGMENTED INFORMATION (continued)

	Corporate \$	Operations in DRC \$	Total \$
<b>Nine months ended September 30, 2010</b>			
Sales revenue	-	385,252	385,252
Net (loss) income	(22,114)	72,798	50,684
Depreciation and amortization	(220)	(46,757)	(46,977)
Interest income	87	88	175
Debenture interest	(14,045)	-	(14,045)
Provision for income taxes	-	(427)	(427)
Additions to property, plant and equipment	308	153,791	154,099
<b>Nine months ended September 30, 2009</b>			
Sales revenue	-	185,555	185,555
Net loss	(38,953)	(84,321)	(123,274)
Depreciation and amortization	(522)	(25,446)	(25,968)
Interest income	753	335	1,088
Debenture interest	(12,651)	-	(12,651)
Provision for income taxes	(740)	(2,097)	(2,837)
Additions to property, plant and equipment	75	69,808	69,883