

**KATANGA MINING LIMITED**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2011 AND 2010**

# **KATANGA MINING LIMITED**

## **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
Interim Condensed Consolidated Statements of Financial Position	3
Interim Condensed Consolidated Statements of Operations and Comprehensive Income	4
Interim Condensed Consolidated Statements of Changes in Equity	5
Interim Condensed Consolidated Statements of Cash Flows	6
Notes to Interim Condensed Consolidated Financial Statements	7-45

# KATANGA MINING LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

As at March 31, 2011, December 31, 2010 and January 1, 2010

As at	Note	March 31, 2011 \$ (unaudited)	December 31, 2010 \$ (unaudited – note 3)	January 1, 2010 \$ (unaudited – note 3)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	7	43,528	41,645	90,698
Receivables	8	109,795	109,259	76,456
Inventories	9	135,882	130,369	103,675
Prepaid expenses and other current assets	10	37,850	30,165	10,103
		<b>327,055</b>	<b>311,438</b>	<b>280,932</b>
<b>Non-current</b>				
Mineral interests	11	1,343,036	1,296,336	1,147,365
Property, plant and equipment, net	12	415,505	418,585	395,393
Other non-current assets		5,430	5,430	-
Deferred income tax assets	27	9,438	13,070	56
		<b>1,773,409</b>	<b>1,733,421</b>	<b>1,542,814</b>
<b>Total assets</b>		<b>2,100,464</b>	<b>2,044,859</b>	<b>1,823,746</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	13	134,069	131,012	81,276
Provisions	14	33,947	36,276	40,930
Customer prepayments – related parties		79,951	71,116	25,841
		<b>247,967</b>	<b>238,404</b>	<b>148,047</b>
<b>Non-current</b>				
Debentures payable	15	124,258	120,358	112,929
Other non-current liabilities	16	53,568	54,172	56,291
Decommissioning and environmental provisions	17	11,025	10,653	4,964
Restricted stock units	18	85	68	47
Deferred income tax liabilities	27	-	-	163,630
		<b>188,936</b>	<b>185,251</b>	<b>337,861</b>
<b>Total liabilities</b>		<b>436,903</b>	<b>423,655</b>	<b>485,908</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	5,19	190,750	190,750	190,750
Reserves	19	2,541,133	2,540,776	2,540,023
Accumulated deficit		(1,096,942)	(1,138,803)	(1,392,935)
<b>Equity attributable to shareholders of the Company</b>		<b>1,634,941</b>	<b>1,592,723</b>	<b>1,337,838</b>
Non-controlling interests	20	28,620	28,481	-
<b>Total equity</b>		<b>1,663,561</b>	<b>1,621,204</b>	<b>1,337,838</b>
<b>Total liabilities and equity</b>		<b>2,100,464</b>	<b>2,044,859</b>	<b>1,823,746</b>

The notes on pages 7 to 45 are an integral part of these interim condensed consolidated financial statements.

# KATANGA MINING LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

Three months ended March 31,	Note	2011 \$ (unaudited)	2010 \$ (unaudited – note 3)
Sales	21	171,041	140,748
Cost of sales	22	(119,043)	(101,913)
		<b>51,998</b>	<b>38,835</b>
<b>Other income (expenses)</b>			
General and administrative		(2,816)	(2,282)
Interest income		8	36
Interest expense		(1,171)	(422)
Foreign exchange loss		(2,198)	(3,731)
<b>Income for the period before income taxes</b>		<b>45,821</b>	<b>32,436</b>
Income tax expense	27	(3,821)	(296)
<b>Net income and total comprehensive income for the period</b>	23	<b>42,000</b>	<b>32,140</b>
Attributable to			
Non-controlling interests		139	(200)
Shareholders of the Company		41,861	32,340
Basic and diluted income per common share		<b>\$0.02</b>	<b>\$0.02</b>
Weighted average number of common shares outstanding		<b>1,907,380,413</b>	<b>1,907,380,413</b>

The notes on pages 7 to 45 are an integral part of these interim condensed consolidated financial statements.

# KATANGA MINING LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Expressed in thousands of U.S. dollars)

Three months ended March 31, 2011 and the year ended December 31, 2010

	Number of common shares	Share capital \$	Reserves		Accumulated deficit \$	Equity attributable to shareholders of the Company \$	Non- controlling interests \$	Total \$
			Contributed surplus \$	Share option reserve \$				
<b>Balance at January 1, 2010</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>2,498,068</b>	<b>41,955</b>	<b>(1,392,935)</b>	<b>1,337,838</b>	<b>-</b>	<b>1,337,838</b>
Options vested during the year	-	-	-	753	-	753	-	753
Total comprehensive income for the year	-	-	-	-	254,132	254,132	28,481	282,613
<b>Balance at December 31, 2010</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>2,498,068</b>	<b>42,708</b>	<b>(1,138,803)</b>	<b>1,592,723</b>	<b>28,481</b>	<b>1,621,204</b>
Options vested during the period	-	-	-	357	-	357	-	357
Total comprehensive income for the period	-	-	-	-	41,861	41,861	139	42,000
<b>Balance at March 31, 2011</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>2,498,068</b>	<b>43,065</b>	<b>(1,096,942)</b>	<b>1,634,941</b>	<b>28,620</b>	<b>1,663,561</b>
<b>Balance at January 1, 2010</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>2,498,068</b>	<b>41,955</b>	<b>(1,392,935)</b>	<b>1,337,838</b>	<b>-</b>	<b>1,337,838</b>
Options vested during the period	-	-	-	36	-	36	-	36
Total comprehensive income for the period	-	-	-	-	32,340	32,340	(200)	32,140
<b>Balance at March 31, 2010</b>	<b>1,907,380,413</b>	<b>190,750</b>	<b>2,498,068</b>	<b>41,991</b>	<b>(1,360,595)</b>	<b>1,370,214</b>	<b>(200)</b>	<b>1,370,014</b>

The notes on pages 7 to 45 are an integral part of these interim condensed consolidated financial statements.

# KATANGA MINING LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

<b>For the three months ended March 31,</b>	<b>Note</b>	<b>2011 \$ (unaudited)</b>	<b>2010 \$ (unaudited)</b>
<b>Cash flows from operating activities</b>			
Net income for the period		42,000	32,140
Adjusted for:			
Depreciation and amortization		17,973	13,772
Share-based compensation		373	32
Net finance cost		1,163	386
Current and deferred income tax expense		3,821	296
Unrealized foreign exchange loss		3,520	3,567
Decommissioning and environmental provision accretion		372	102
Gain on disposal of property, plant and equipment		-	(15)
Interest received		8	36
Interest paid		(1,171)	(422)
Income tax paid		(312)	(206)
Changes in working capital:			
(Increase) decrease in receivables		(536)	15,838
Increase in prepaid expenses and other current assets		(7,685)	(5,945)
(Increase) decrease in inventories		(7,728)	182
(Decrease) increase in accounts payable, accrued liabilities and provisions		(671)	17,652
Increase in customer prepayments		8,835	3,363
		<b>59,962</b>	<b>80,778</b>
<b>Cash flows from investing activities</b>			
Additions to mineral interests and property, plant and equipment		(50,743)	(31,195)
Proceeds from disposals of property, plant and equipment		-	33
		<b>(50,743)</b>	<b>(31,162)</b>
<b>Cash flows from financing activities</b>			
Repayment of debenture interest		(8,658)	(8,455)
		<b>(8,658)</b>	<b>(8,455)</b>
<b>Increase in cash and cash equivalents</b>			
		<b>561</b>	<b>41,161</b>
Cash and cash equivalents, beginning of period		41,645	90,698
Effect of exchange rate changes on cash held in foreign currencies		1,322	(164)
<b>Cash and cash equivalents, end of period</b>		<b>43,528</b>	<b>131,695</b>

The notes on pages 7 to 45 are an integral part of these interim condensed consolidated financial statements.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

---

### 1. DESCRIPTION OF BUSINESS

Katanga Mining Limited (“Katanga” or the “Company”), a limited company whose common shares are listed on the Toronto Stock Exchange, is incorporated under the laws of Bermuda and is domiciled in Canada. The Company’s registered office address is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda. Katanga’s parent company is Jangleglade Limited (66.66% shareholding) and its ultimate holding company is Glencore Holding AG.

Katanga, through its 75% owned subsidiary 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 Lulu Metallurgical Plant (collectively, the “Project”), in the DRC.

### 2. BASIS OF PREPARATION

#### Statement of compliance

These interim condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Company’s first IFRS interim condensed consolidated financial statements for part of the period covered by the Company’s first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its consolidated annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”).

As these are the Company’s first set of interim condensed consolidated financial statements in accordance with IFRS, the Company’s disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company’s 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company’s interim condensed consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

The interim condensed consolidated financial statements of the Company for the three months ended March 31, 2011, and 2010 have been prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 4, 2011. Shortly thereafter, the financial statements are made available to shareholders and others through filing on the System for Electronic Document Analysis and Retrieval (“SEDAR”).

#### Basis of presentation

The financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4. These financial statements have been prepared using IFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 2. BASIS OF PREPARATION (continued)

#### Basis of presentation (continued)

All amounts are presented in U.S. dollars, unless otherwise indicated, as a significant amount of the Company's business is conducted in this currency.

#### Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011.

For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards.

At the date of authorization of these Financial Statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 7 – Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after July 1, 2011);
- IFRS 9 – Financial Instruments – Classification and Measurement (effective for annual periods beginning on or after January 1, 2013);
- IAS 12 – Income Taxes – Limited scope amendment (recovery of underlying assets) (effective for annual periods beginning on or after January 1, 2012);

The Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company. These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

---

### 3. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides guidance for the initial adoption of IFRS. Under IFRS 1, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain mandatory exceptions and optional exemptions are applied.

#### **Mandatory exceptions**

The mandatory exceptions applicable to the Company include the following:

##### *Estimates*

In accordance with IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies between Canadian GAAP and IFRS.

#### **Optional exemptions and elections**

In addition to the mandatory exceptions, the Company has applied some exemptions and elections available to it under IFRS at the transition date to its January 1, 2010 consolidated statements of financial position. Note that only material adjustments are discussed qualitatively below. Also note that the impact at January 1, 2010, is the same for the period March 31, 2010, and December 31, 2010, for the exemptions described below:

##### *IFRS 3 - Business Combinations*

IFRS 1 provides an exemption not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the transition date. The Company has elected not to restate any business combinations that occurred prior to its transition date. Additionally, goodwill arising on business combinations occurring before the transition date has not been adjusted from the carrying amount previously determined under Canadian GAAP as a result of applying this exemption.

##### *IAS 16 - Property, Plant and Equipment*

At the transition date, an entity may elect to measure an item of property, plant and equipment, including mineral interests, at its fair value and use that fair value as its deemed cost at that date. It may also elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as the item's deemed cost if it is comparable to fair value or reflects the cost or depreciated cost under IFRS. This exemption is available on an item-by-item basis and need not be applied to an entire class of assets. The Company has elected to use the Canadian GAAP revaluation of mineral interests as the deemed cost at the transition date.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 3. FIRST TIME ADOPTION OF IFRS (continued)

#### IFRS reconciliation

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to its reported financial position and results of operations. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net and total comprehensive income and cash flows of the Company from those reported under Canadian GAAP:

#### Total assets

As at	Note	December 31, 2010 \$	January 1, 2010 \$
Total assets under Canadian GAAP		1,944,158	1,751,651
Adjustments for differing accounting treatments			
Capitalization of borrowing costs	(i)	78,491	60,854
Non-IFRS reclassifications	(iv)	22,210	11,241
<b>Total assets under IFRS</b>		<b>2,044,859</b>	<b>1,823,746</b>

#### Total liabilities

As at	Note	December 31, 2010 \$	January 1, 2010 \$
Total liabilities under Canadian GAAP		401,445	474,667
Adjustments for differing accounting treatments			
Non-IFRS reclassifications	(iv)	22,210	11,241
<b>Total liabilities under IFRS</b>		<b>423,655</b>	<b>485,908</b>

#### Total equity attributable to shareholders of the Company

As at	Note	December 31, 2010 \$	March 31, 2010 \$	January 1, 2010 \$
Total equity under Canadian GAAP		1,542,713	1,304,613	1,276,984
Adjustments for differing accounting treatments				
Capitalization of borrowing costs	(i)	78,491	65,401	60,854
Recognition of non-controlling interests	(ii)	(28,481)	200	-
<b>Total equity attributable to shareholders of the Company under IFRS</b>		<b>1,592,723</b>	<b>1,370,214</b>	<b>1,337,838</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 3. FIRST TIME ADOPTION OF IFRS (continued)

#### Net income and total comprehensive income

	Note	Year ended December 31, 2010 \$	Three months ended March 31, 2010 \$
Net and total comprehensive income under Canadian GAAP		264,976	27,593
Basic and diluted income per common share under Canadian GAAP		\$0.14	\$0.01
Adjustments for differing accounting treatments			
Capitalization of borrowing costs	(i)	18,782	4,792
Amortization of borrowing cost asset	(i)	(1,145)	(245)
Recognition of non-controlling interests	(ii)	(28,481)	200
<b>Net and total comprehensive income attributable to shareholders of the Company under IFRS</b>		<b>254,132</b>	<b>32,340</b>
<b>Basic and diluted income per common share under IFRS</b>		<b>\$0.13</b>	<b>\$0.02</b>

#### Cash flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of operations have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no cash flow reconciliations have been presented.

#### Notes to the IFRS reconciliation above:

##### (i) Capitalization of borrowing costs

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Units") for an aggregate of Canadian \$115,000,000 in order to finance the refurbishment and development of the Kamoto Project and the KOV copper and cobalt mine. Each Unit consists of a Canadian \$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants. The Notes bear interest at the rate of 14% per annum, payable semi-annually in arrears.

*Under Canadian GAAP* – interest expense is recognized in the statement of operations as incurred.

*Under IFRS* – interest expense on the Notes is capitalized as incurred during the refurbishment and development phase and amortized over the life of the mine on a unit of production basis.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

---

### 3. FIRST TIME ADOPTION OF IFRS (continued)

#### Notes to the IFRS reconciliation above (continued):

#### (ii) Recognition of non-controlling interests

In 2004, Katanga and La Générale des Carrières et des Mines (“Gécamines”), a DRC state-owned mining company, entered into the Kamoto Joint Venture Agreement to rehabilitate and resume copper and cobalt mining and metal production at the Kamoto Mine located near Kolwezi in the Katanga Province in the DRC. KCC was formed in 2005 to hold the joint venture assets and operations of which Katanga holds a 75% stake and Gécamines a 25% stake.

*Under Canadian GAAP* – A non-controlling interest on the Company’s statement of financial position and statement of operations and comprehensive income that represents the 25% share of net income / losses that pertain to Gécamine’s interest would typically be recorded. However, in the event the non-controlling shareholder’s 25% share of the losses has exceeded the amount of the non-controlling interests’ share of net income, as is the case, rather than recognizing a negative non-controlling interest position, 100% of KCC’s net assets and operating results are consolidated by the Company. Under Canadian GAAP, the non-controlling interests’ share of subsequent income is reduced by any previously unrecognized negative non-controlling interests.

*Under IFRS* – Normally, a non-controlling interest on the Company’s statement of financial position and statement of operations and comprehensive income that represents the 25% share that pertains to Gécamine’s interest is recorded regardless if the non-controlling interest position is in a deficit balance or not. However, pursuant to the exemption to retrospective application set out in IFRS 1, this has been applied prospectively from the date of transition to IFRS, with no reduction of the non-controlling interests’ share of income in the three months ended March 31, 2011, and the year ended December 31, 2010, as a result of losses in prior years.

#### (iii) Warrants

Under Canadian GAAP, Canadian dollar denominated warrants are accounted for as equity instruments. IFRS requires that warrants denominated in a currency other than the functional currency of the issuer be classified as liabilities and fair valued each period unless they are issued pro rata to all existing shareholders, in which case they would be classified as equity.

As a result of the adoption of IFRS, the Company’s Canadian dollar denominated warrants were classified as current liabilities rather than equity and revalued to their fair value. Subsequent changes in the fair value of the warrants, if any, will be recorded in the Statements of Operations and Comprehensive Income.

The impact of this adjustment on the translational balance sheet as at January 1, 2010 was a reduction of warrants of \$5,809 and a reduction in the accumulated deficit of an equivalent amount. This adjustment had no effect on total equity.

The fair value of the warrants at January 1, 2010, December 31, 2010 and March 31, 2011 was determined to be \$nil given the substantial excess of the exercise price of the warrants over the quoted market value of the Company’s common shares at those respective dates.

#### (iv) Non-IFRS reclassifications

Concurrent with the work performed for the transition to IFRS, the Company took the opportunity to consider its financial disclosures and decided to make additional reclassifications. While these are not

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

as a direct result of the IFRS transition, the Company has identified such reclassifications in order to assist the reader in making comparisons with historic financial information which has previously been published. These reclassifications are summarized as follows:

<b>As at</b>	<b>December 31, 2010 \$</b>	<b>January 1, 2010 \$</b>
Increase in receivables	8,968	18,077
Decrease in prepaid expenses and other current assets	(8,968)	(18,077)
Increase in inventories	22,210	11,241
Increase in customer prepayments	(22,210)	(11,241)
Increase in mineral interests	-	17,687
Decrease in property, plant and equipment, net	-	(17,687)
Decrease in accounts payable and accrued liabilities	36,276	40,930
Increase in provisions	(36,276)	(40,930)
<b>Change in net assets</b>	<b>-</b>	<b>-</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of consolidation**

The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling interest. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances, transactions and unrealized profits are eliminated in full. The consolidated financial statements include the financial statements of the Company and its subsidiaries.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. As explained in Note 3, pursuant to the requirements of IFRS 1, this requirement has been applied prospectively from the date of transition to IFRS.

#### **Foreign Currency translation**

Financial statements of subsidiaries are maintained in their functional currencies. For the purposes of consolidation, assets and liabilities of group companies whose functional currency is a currency other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates, while their statements of operations are translated using the average exchange rate for the year.

Transactions in foreign currencies are translated at the exchange rates in effect at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at period-end exchange rates. The resulting exchange differences are recorded in the statement of operations.

#### **Critical accounting policies, key judgments and estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual outcomes could differ from those estimates. The Company has identified the following areas as being critical to understanding its financial position as they require management to make complex and/or subjective judgments and estimates about matters that are inherently uncertain.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Critical accounting policies, key judgments and estimates (continued)

##### *Depreciation and amortization of mineral interests and property, plant and equipment*

Mineral interests and property, plant and equipment are amortized using the unit of production method (UOP). The calculation of the UOP rate of amortization, and therefore the annual amortization charge to operations, can fluctuate from initial estimates. This could generally result when there are significant changes in any of the factors or assumptions used in estimating mineral reserves, notably changes in the geology of the reserves and assumptions used in determining the economic feasibility of the reserves. Such changes in reserves could similarly impact the useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the Project, which in turn is limited to the life of the proven and probable mineral reserves. Estimates of proven and probable reserves are prepared by experts in extraction, geology and reserve determination. Assessments of UOP rates against the estimated reserve base and the operating and development plan are performed regularly.

##### *Impairments*

Mineral interests and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized. Future cash flow estimates which are used to calculate the asset's fair value are based on expectations about future operations primarily comprising estimates about production and sales volumes, commodity prices, reserves, operating, rehabilitation and restoration costs and capital expenditures. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

##### *Decommissioning and environmental provisions*

The Company's operations are subject to environmental regulations in Canada and the DRC. Upon establishment of commercial viability of a site, the Company estimates the cost to restore the site following the completion of commercial activities and depletion of reserves. These future obligations are estimated by taking into consideration closure plans, known environmental impacts, and internal and external studies which estimate the activities and costs that will be carried out to meet the decommissioning and environmental obligations. Amounts recorded for decommissioning and environmental provisions are based on estimates of decommissioning and environmental costs which may not be incurred for several years or decades. The decommissioning and environmental cost estimates could change due to amendments in laws and regulations in the DRC. Additionally, actual estimated decommissioning and reclamation costs may differ from those projected as a result of an increase over time of actual remediation costs, a change in the timing for utilization of reserves and the potential for increasingly stringent environmental regulatory requirements.

The decommissioning and environmental provisions are measured by discounting the expected cash flows at a risk-adjusted discount rate of 14%. The actual rate depends on a number of factors, including the time it will take to rehabilitate the property (which can range from 1 to 32 years) and the location of the property. Changes in estimates are amortized over the life of the operating properties.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Critical accounting policies, key judgments and estimates (continued)

##### *Income taxes*

The Company operates in the DRC, Switzerland, South Africa and Canada and is subject to several tax jurisdictions, and consequently, income is subject to various rates and rules of taxation. As a result, the Company's effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in the different jurisdictions. The Company calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs and can either be increased or decreased where, in the view of management, such change is warranted. In determining whether a deferred tax asset is more likely than not to be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented.

##### *Provisions*

The amount recognized as a provision, including legal, contractual and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

#### 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 receivables, (see note 21).

As at March 31, 2011, the Company recognized a customer prepayment balance of \$79,951 (December 31, 2010 - \$71,116, January 1, 2010 - \$25,841) due to advance payments received on future sales and contractual obligations to invoice upon shipment of goods from the mine site. Previously, these amounts were presented net of the cost of the related inventory. Accordingly, inventories and customer prepayment amounts have been reclassified to present these amounts gross.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Income taxes**

Income tax expense represents the sum of tax currently payable and deferred tax.

#### ***Current income taxes***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

#### ***Deferred income taxes***

Deferred income tax is provided using the statement of position liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax asset and liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- Deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations and comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Earnings per common share

Basic earnings per common share is computed by dividing the earnings attributable to shareholders of the Company for the period by the weighted average number of common shares outstanding during the year or period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings 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 earnings per common share are the same.

#### Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's receivables are classified as loans-and-receivables. The Company has not designated any financial assets as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary. At March 31, 2011, the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

#### Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities. Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial liabilities (continued)**

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At March 31, 2011, the Company has not designated any financial liabilities as FVTPL.

#### **Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

#### ***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in income.

In relation to receivables, a provision for impairment is made and an impairment loss is recognized in income when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

#### ***Available-for-sale***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in income, is transferred from equity to income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in income.

#### **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.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Borrowings and borrowing costs**

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

#### **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. Replacement cost is used as the best available measure of net realizable value. Obsolete, redundant, and slow moving stores are identified and written down to net realizable values.

Product inventories include ore in stockpiles, work in progress and finished product (which comprises copper cathode, copper concentrate, cobalt metal and cobalt concentrate). Product inventories are measured at the lower of cost and net realizable value. Cost is calculated as a weighted average cost, including materials, direct labour, other direct costs, production overheads and amortization of property, plant and equipment directly involved in the mining and production processes. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **Property, plant and equipment**

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

Depreciation and amortization are charged to the statement of operations so as to write off the cost of assets less their residual values using the straight-line method over their expected useful lives as follows:

Plant and equipment	1 to 7 years
Land	Not applicable
Buildings	10 years
Leasehold improvements	Term of underlying lease

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Overburden removal costs

The costs of removing overburden material to access mineral reserve deposits, referred to as "stripping costs", are accounted for as variable production costs to be included in the cost of inventory produced, unless the overburden removal activity can be shown to be a betterment of the mineral property, in which case these costs are capitalized. Betterment occurs when the overburden removal activity provides access to additional mineral deposit reserves that will be produced in future periods which would not have otherwise been accessible in the absence of the stripping activity. These deferred costs are included in mineral interests and are amortized using the units of production basis or straight-line method to cost of sales over the life of the mineral deposit reserves.

#### Mineral interests

All direct costs relating to the mineral interests that 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. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

Carrying values of mineral interests as reported on the statement of financial position 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 unit of production method, based upon the current estimated recoverable reserves and resources.

#### Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Decommissioning and environmental provisions**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for a decommissioning and environmental provision is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding decommissioning and environmental provision is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit of production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning and environmental provision, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation and accreted over time to its present value, (accretion charge is included in the statement of operations within cost of sales).

#### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

#### **Share-based compensation**

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity transactions ("equity-settled transactions").

The Company recognizes the fair value of share-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 statement of financial position date.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

---

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share-based compensation (continued)

##### *Equity-settled transactions*

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

#### Comparative figures

The Company has restated all prior period figures in accordance with IFRS.

### 5. CAPITAL DISCLOSURES

The Company includes as its capital its common shares and has no externally imposed capital requirements. 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 holds its unexpended cash with financial institutions with a Standard and Poor’s rating of A or greater in line with the Company’s treasury policy. The Company is currently in compliance with all capital requirements including requirements relating to its non-current debt.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 6. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

As at	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Financial assets</b>			
Cash and cash equivalents	43,528	41,645	90,698
Receivables	109,795	109,259	76,456
Total financial assets	153,323	150,904	167,154
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	134,069	131,012	81,276
Provisions	33,947	36,276	40,930
Debentures payable	124,258	120,358	112,929
Warrants	-	-	-
Other non-current liabilities	53,568	54,172	56,291
Restricted stock units	85	68	47
Total financial liabilities	345,927	341,886	291,473

#### Fair value

With the exception of the publicly-traded debentures, the Company estimates that the fair value of these financial instruments approximates the carrying values at March 31, 2011, December 31, 2010, and January 1, 2010, respectively. The publicly-traded debentures were trading at a premium to their carrying value, as at March 31, 2011 (fair value - \$131,898), December 31, 2010 (fair value - \$128,551), and at a discount, as at January 1, 2010 (fair value - \$109,474).

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 6. FINANCIAL INSTRUMENTS (continued)

#### Fair value (continued)

The following table outlines financial assets and liabilities measured at fair value in the consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above as at March 31, 2011, December 31, 2010 and January 1, 2010:

	Hierarchy level	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Held for trading:				
Cash and cash equivalents	1	43,528	41,645	90,698
Loans and receivables				
Receivables from provisionally priced copper sales <sup>(1)</sup>	2	2,406	9,469	9,213
Other liabilities				
RSUs <sup>(2)</sup>	1	85	68	47
Warrants	2	-	-	-

(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 ("RSUs") 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.

#### Financial risk management objectives and policies

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company does not enter into or trade financial instruments including derivative financial instruments, for speculative purposes.

#### 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 two customers, 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 Poor's rating of A or greater in line with the Company's treasury policy. The Company does not own any asset-backed commercial paper.

#### Mineral property risks

The Company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the Company's activities or may result in impairment or loss of part or all of the Company's assets.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 6. FINANCIAL INSTRUMENTS (continued)

#### Financial risk management objectives and policies (continued)

##### *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 March 31, 2011, the Company had 6,606 tonnes of copper (December 31, 2010 – 980) and 471 tonnes of cobalt sales (December 31, 2010 – 190) for which final commodity prices have yet to be determined. These were valued at March 31, 2011 at an average commodity price of \$9,544 per tonne for copper (December 31, 2010 - \$9,665) and \$36,065 per tonne for cobalt (December 31, 2010 - \$38,665) (amounts in whole numbers). A 5% plus or minus movement in the copper and cobalt price at March 31, 2011 would result in a \$3,906 change to revenue and trade receivables (year ended December 31, 2010 - \$822).

##### *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 26).

The following table details the Company's expected remaining contractual maturities for its financial liabilities at March 31, 2011 and December 31, 2010. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

<b>As at March 31, 2011</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>Over 2 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	134,069	-	-	-	134,069
Debentures payable	8,788	8,934	17,772	137,964	173,458
Other non-current liabilities	-	10,000	15,000	60,500	85,500
Restricted stock units	85	-	-	-	85
	142,942	18,934	32,772	198,464	393,112

<b>As at December 31, 2010</b>	<b>6 months or less</b>	<b>6 to 12 months</b>	<b>1 to 2 years</b>	<b>Over 2 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	131,012	-	-	-	131,012
Debentures payable	8,667	8,811	17,527	140,358	175,363
Other non-current liabilities	-	10,000	15,000	60,500	85,500
Restricted stock units	68	-	-	-	68
	139,747	18,811	32,527	200,858	391,943

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 6. FINANCIAL INSTRUMENTS (continued)

#### Financial risk management objectives and policies (continued)

##### *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%. If the interest rate charged on the Company's outstanding debt at March 31, 2011 were to increase or decrease by 500 basis points, the decrease or increase in the interest cost for the period would be approximately \$622 (years ended December 31, 2010 – \$2,414, December 31, 2009 - \$2,194).

##### (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. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

The carrying amounts of the Company's foreign currency denominated monetary assets at the respective dates of the statement of financial position are as follows:

<b>As at</b>	<b>March 31, 2011 \$</b>	<b>December 31, 2010 \$</b>	<b>January 1, 2010 \$</b>
<b>Assets</b>			
South African rand	9,191	5,214	4,599
British pounds	268	185	774
Canadian dollars	1,205	440	260
Swiss franc	688	112	96
Euros	911	316	1,098
	<b>12,263</b>	<b>6,267</b>	<b>6,827</b>

If the U.S. dollar moved by plus or minus 5% at March 31, 2011, the unrealized foreign exchange gain or loss would move by approximately \$615 (years ended December 31, 2010 – \$314, December 31, 2009 - \$342).

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 5% movement in the Canadian dollar exchange rate at March, 31 2011 would affect the consolidated statement of operations and comprehensive income by approximately \$5,925 (years ended December 31, 2010 – \$6,093, December 31, 2009 - \$5,808).

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 7. CASH AND CASH EQUIVALENTS

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Re guarantees (i)	3,000	3,000	5,000
Re debenture interest (ii)	-	8,658	8,455
Restricted cash	3,000	11,658	13,455
Unrestricted cash	40,528	29,987	77,243
<b>Total cash and cash equivalents</b>	<b>43,528</b>	<b>41,645</b>	<b>90,698</b>

- (i) The Company has provided guarantees as required by certain capital asset procurement contracts. These guarantees mature on April 30, 2011 (\$3,000) and matured on December 21, 2010 (\$2,000).
- (ii) Semi-annual debenture interest held in trust before payment to debenture-holders after December 31, 2010 and January 1, 2010, respectively.

### 8. RECEIVABLES

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Accounts receivable from related parties	91,800	89,737	50,794
Accounts receivable from third parties	12,760	10,554	7,585
Other receivables from third parties	5,235	8,968	18,077
<b>Total receivables</b>	<b>109,795</b>	<b>109,259</b>	<b>76,456</b>

Below is an aged analysis of the Company's receivables:

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Less than 1 month	39,952	45,969	36,358
1 to 3 months	46,169	45,498	22,186
3 to 6 months	19,669	6,848	11,494
Over 6 months	4,005	10,944	6,418
	<b>109,795</b>	<b>109,259</b>	<b>76,456</b>

At March 31, 2011, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables.

The Company holds no collateral for any receivable amounts outstanding as at March 31, 2011.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 9. INVENTORIES

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Ore in stockpiles	34,675	30,349	24,260
Work in progress	12,814	7,670	6,359
Finished product	23,891	31,957	32,026
<b>Total product inventories</b>	<b>71,380</b>	<b>69,976</b>	<b>62,645</b>
Raw materials and consumables	64,502	60,393	41,030
<b>Total inventories</b>	<b>135,882</b>	<b>130,369</b>	<b>103,675</b>

All inventories are stated at the lower of cost and net realizable value. The amount of inventories recognized as an expense during the three months ended March 31, 2011, is \$63,190 (2010 - \$56,195). As at March 31, 2011, the Company anticipates the entire stockpiles balance of \$34,675 will be realized within one year.

### 10. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Prepaid expenses	36,053	28,368	9,256
Deposits	1,797	1,797	847
<b>Total prepaid expenses and other current assets</b>	<b>37,850</b>	<b>30,165</b>	<b>10,103</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 11. MINERAL INTERESTS

	Capitalized development expenditures \$	Assets subject to amortization \$	Capitalized borrowing costs \$	Total \$
<b>Cost</b>				
As at January 1, 2010	954,380	120,812	84,206	1,159,398
Additions	92,828	57,377	18,782	168,987
Transfers	(936,141)	936,141	-	-
As at December 31, 2010	111,067	1,114,330	102,988	1,328,385
Additions	26,290	25,204	4,821	56,315
<b>As at March 31, 2011</b>	<b>137,357</b>	<b>1,139,534</b>	<b>107,809</b>	<b>1,384,700</b>
<b>Accumulated amortization</b>				
As at January 1, 2010	-	8,918	3,115	12,033
Charge for the year	-	18,871	1,145	20,016
As at December 31, 2010	-	27,788	4,260	32,049
Charge for the period	-	9,213	402	9,615
<b>As at March 31, 2011</b>	<b>-</b>	<b>37,001</b>	<b>4,663</b>	<b>41,664</b>
<b>Net book value</b>				
As at January 1, 2010	954,380	111,894	81,091	1,147,365
As at December 31, 2010	111,067	1,086,542	98,728	1,296,336
<b>As at March 31, 2011</b>	<b>137,357</b>	<b>1,102,533</b>	<b>103,146</b>	<b>1,343,036</b>

During the three months ended March 31, 2011, \$1,443 of the amortization charge was capitalized to inventories (year ended December 31, 2010 - \$1,551).

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 12. PROPERTY, PLANT AND EQUIPMENT, NET

	Plant and equipment \$	Land and buildings \$	Leasehold improvements \$	Assets under construction \$	Total \$
<b>Cost</b>					
As at January 1, 2010	410,255	24,136	10,194	840	445,425
Additions	72,748	2,075	80	5,042	79,945
Disposals	(8,949)	-	-	-	(8,949)
As at December 31, 2010	474,054	26,211	10,274	5,882	516,421
Additions	2,526	-	-	2,752	5,278
<b>As at March 31, 2011</b>	<b>476,580</b>	<b>26,211</b>	<b>10,274</b>	<b>8,634</b>	<b>521,699</b>
<b>Accumulated depreciation</b>					
As at January 1, 2010	47,212	1,425	1,395	-	50,032
Charge for the year	46,544	1,680	1,391	-	49,615
Eliminated on disposals	(1,811)	-	-	-	(1,811)
As at December 31, 2010	91,945	3,105	2,786	-	97,836
Charge for the period	7,565	444	349	-	8,358
<b>As at March 31, 2011</b>	<b>99,510</b>	<b>3,549</b>	<b>3,135</b>	<b>-</b>	<b>106,194</b>
<b>Net book value</b>					
As at January 1, 2010	363,043	22,711	8,799	840	395,393
As at December 31, 2010	382,109	23,106	7,488	5,882	418,585
<b>As at March 31, 2011</b>	<b>377,070</b>	<b>22,662</b>	<b>7,139</b>	<b>8,634</b>	<b>415,505</b>

During the three months ended March 31, 2011, \$2,312 of the depreciation charge was capitalized to inventories (year ended December 31, 2010 - \$2,980). Additionally, during the three months ended March 31, 2011, \$924 of the depreciation charge was capitalized to mineral interests relating to the KOV asset (year ended December 31, 2010 - \$4,477).

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Trade payables	54,671	74,874	30,295
Accrued liabilities	79,398	56,138	50,981
<b>Total accounts payable and accrued liabilities</b>	<b>134,069</b>	<b>131,012</b>	<b>81,276</b>

The following is an aged analysis of the accounts payable and accrued liabilities:

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Less than 1 month	87,338	93,244	65,005
1 to 3 months	37,026	30,093	11,959
3 to 6 months	9,705	7,675	4,312
Over 6 months	-	-	-
<b>Total accounts payable and accrued liabilities</b>	<b>134,069</b>	<b>131,012</b>	<b>81,276</b>

### 14. PROVISIONS

The following table presents the movement in provision during the period:

	SX/EW provision <sup>(i)</sup> \$	Other provisions \$	Total \$
December 31, 2010	28,806	7,470	36,276
Additions	-	2,500	2,500
Utilization	-	(4,752)	(4,752)
Releases	-	(77)	(77)
<b>March 31, 2011</b>	<b>28,806</b>	<b>5,141</b>	<b>33,947</b>

- (i) 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 a provision 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 March 31, 2011 represents the estimated amount remaining to be settled.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 15. 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 instalments 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 at initial recognition was Canadian \$1.68.

As at March 31, 2011, December 31, 2010, and January 1, 2010, there were 3,966,400 warrants outstanding with an exercise price of Canadian \$8.50 and an expiry date of November 20, 2011. No warrants were issued, exercised or expired during the periods presented. The fair value of the warrants at March 31, 2011 was nil (December 31, 2010 – nil; January 1, 2010 – nil)

During the period ended March 31, 2011, \$8,658 of interest was paid on the debentures (year ended December 31, 2010 - \$16,822).

The debentures payable balance is comprised of the following:

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Debenture payable, beginning of the period	120,358	112,929	94,520
Changes during the period:			
Accretion	380	1,540	1,540
Foreign exchange translation loss <sup>(1)</sup>	3,520	5,889	16,869
<b>Debentures payable, end of the period</b>	<b>124,258</b>	<b>120,358</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 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.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 16. OTHER NON-CURRENT LIABILITIES

Pursuant to the terms of the new Joint Venture Agreement, 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, \$30,000 has already been paid and \$24,500 has been deducted 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 is being amortized over the life of the new Joint Venture Agreement on a straight line basis. The expected cash flows are discounted at a risk-adjusted discount rate of 14% per annum.

### 17. DECOMMISSIONING AND ENVIRONMENTAL PROVISIONS

Decommissioning and environmental provisions 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 decommissioning and environmental provisions are calculated at the net present value of estimate future cash flows of the reclamation and closure costs which total approximately \$110,000 and are required to satisfy the obligations over the next 1 to 32 years. A risk-adjusted discount rate of 14% was applied to expected future cash flows to determine the carrying value of the provisions.

The following table details the items that affect the decommissioning and environmental provisions:

	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Provisions, beginning of the period	10,653	4,964	4,674
Accretion	372	634	417
Revision to estimate	-	5,055	(127)
<b>Provisions, end of the period</b>	<b>11,025</b>	<b>10,653</b>	<b>4,964</b>

As at December 31, 2010, the Company reassessed its decommissioning and environmental provisions due to the completion of a new Environmental Impact Study and Environmental Management Plan for the Project. This resulted in a \$5,055 increase in the provisions.

As at January 1, 2010, the Company reassessed its provisions due to the transfer of the KZC concentrator to Gécamines as agreed in the new Joint Venture Agreement. This resulted in a \$127 reduction in the provisions.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

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

The following table reflects the continuity of RSUs during the period ended March 31, 2011 and the years ended December 31, 2010 and January 1, 2010:

	March 31, 2011		December 31, 2010		January 1, 2010	
	Number of RSUs	\$	Number of RSUs	\$	Number of RSUs	\$
Restricted stock units, beginning of the period	47,769	68	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	-	15	-	40	-	39
Effect of changes in foreign exchange rates	-	2	-	3	-	47
<b>Restricted stock units, end of the period</b>	<b>47,769</b>	<b>85</b>	<b>47,769</b>	<b>68</b>	<b>70,531</b>	<b>47</b>

### 19. SHARE CAPITAL

#### (a) AUTHORIZED

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

#### (b) WARRANTS

As at March 31, 2011, December 31, 2010, and January 1, 2010, there were 3,966,400 warrants outstanding with an exercise price of Canadian \$8.50 and an expiry date of November 20, 2011. No warrants were issued, exercised or expired during the periods presented. As explained in Note 3 (iii), under IFRS these warrants are classified as liabilities and have a fair value of \$nil as at March 31, 2011.

#### (c) SHARE OPTIONS

The following table reflects the continuity of share options during the periods presented:

	Number of share options	Weighted Exercise Price per Share <sup>(i)</sup>
Outstanding at January 1, 2010	4,450,686	\$12.20
Granted during the year	6,613,226	\$1.07
<b>Outstanding at December 31, 2010 and March 31, 2011</b>	<b>11,063,912</b>	<b>\$5.55</b>

(i) Denominated in Canadian dollars.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 19. SHARE CAPITAL (continued)

#### (c) SHARE OPTIONS (CONTINUED)

During the period ended March 31, 2011, no options were granted. During the year ended December 31, 2010, 6,613,226 share options were granted pursuant to the Company's share option plan with an average exercise price of Canadian \$1.07. The options vest on August 10, 2013.

The value assigned to these options was calculated using the Black-Scholes valuation model. The weighted average assumptions used in the model for the calculation were:

	Year ended December 31, 2010
Risk-free interest rate	0.78%
Expected life	3 years
Expected volatility <sup>(i)</sup>	97%
Expected dividend per share	Nil

(i) Expected volatility has been based on historical volatility of the Company's publicly traded shares.

The following table summarizes the share options outstanding at March 31, 2011:

Exercise Price per Share <sup>(1)</sup>	Exercisable Options	Outstanding unvested Options <sup>(2)</sup>	Total
\$1-\$5	30,000	6,613,226	6,643,226
\$6-\$10	1,601,666	16,667	1,618,333
\$11-\$15	1,716,666	33,334	1,750,000
\$16-\$20	1,052,353	-	1,052,353
	<b>4,400,685</b>	<b>6,663,227</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 \$3,193.

The weighted average exercise price of exercisable options is Canadian \$12.19 and outstanding unvested options is Canadian \$1.16. The 6,613,226 unvested options vest on August 10, 2013.

During the three months ended March 31, 2011, the Company recorded a share-based compensation expense (a non-cash item) of \$356 (three months ended March 31, 2010 - \$530) which has been included in general and administrative expenses in the statement of operations and total comprehensive income.

#### (d) DILUTED EARNINGS PER SHARE

Total share options of 4,455,762 (2010 – 11,063,912) and warrants of 3,966,400 (2010 – 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 period ended March 31, 2011, of Canadian \$1.60 (period ended March 31, 2010 – Canadian \$1.04).

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 20. NON-CONTROLLING INTERESTS

The non-controlling interests represent the 25% investment in KCC held by Gécamines.

	As at March 31, 2011 \$	As at December 31, 2010 \$
Non-controlling interests, beginning of the period	28,481	-
Non-controlling interests' share of net income	139	28,481
<b>Non-controlling interests, end of the period</b>	<b>28,620</b>	<b>28,481</b>

### 21. SALES

	Three months ended March 31, 2011 \$	March 31, 2010 \$
Copper	132,796	94,353
Cobalt	28,958	37,605
Copper concentrate	9,287	8,790
<b>Sales</b>	<b>171,041</b>	<b>140,748</b>

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 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 receivables on the statement of financial position. The marked-to-market loss for the three months ended March 31, 2011 was \$7,063 (three months ended March 31, 2010, gain of \$2,670) with a corresponding increase or decrease in receivables. Cobalt sales are not marked-to-market due to the absence of a futures market.

As at March 31, 2011, the Company recognized a customer prepayment balance of \$79,951 on copper and cobalt (December 31, 2010 - \$71,116; January 1, 2010 - \$25,841) 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.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 22. COST OF SALES

	Three months ended	
	March 31, 2011	March 31, 2010
	\$	\$
Mining, processing and other costs	76,431	70,831
Royalties and transportation costs	24,639	17,310
Depreciation and amortization	17,973	13,772
<b>Cost of sales</b>	<b>119,043</b>	<b>101,913</b>

### 23. NET INCOME FOR THE PERIOD

Net income for the period includes:

	Three months ended	
	March 31, 2011	March 31, 2010
	\$	\$
Employee benefits expense <sup>(1)</sup>	16,822	15,636
Operating lease expense	546	527

<sup>(1)</sup> Consists of salaries, bonuses and allowances provided to employees of the Company.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

---

### 24. RELATED PARTY TRANSACTIONS

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

#### **Related Parties**

**La Générale des Carrières et des Mines (“Gécamines”)** a state owned and operated mining enterprise of the DRC, has a 25% minority interest in KCC. KCC is required to make royalty and lease payments to Gécamines pursuant to the Joint Venture Agreement between Katanga, Gécamines and KCC.

**Glencore International AG (“Glencore”)** is the Company’s majority shareholder and is represented on the Board of Directors of the Company. In November 2007, 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. The off-take agreements were entered into before Glencore was a related party of the Company.

**Xstrata Queensland Ltd (“Xstrata”)** is a subsidiary of Xstrata plc and at March 31, 2011, Glencore owned 34.08% of Xstrata plc’s issued share capital. During 2010, Xstrata provided mining equipment and services to the Company, in the normal course of business and on arm’s length commercial terms.

**Mopani Copper Mine Plc (“Mopani”)** is a copper and cobalt producer located in Zambia. Mopani is a 73% owned subsidiary of Glencore. During 2010 and 2011, Mopani supplied sulphuric acid and other consumables to the Company, and purchased concentrate from the Company. On August 4, 2010, the Company’s Board of Directors approved entering into three contracts with Mopani providing for the purchase by Mopani of oxide concentrate from, and sale by Mopani of starter sheets and lead to, the Company in the ordinary course of business and on arm’s length commercial terms. After reviewing the terms of the proposed three contracts, the Company’s independent Directors, who are also members of its Corporate Governance and Nominations Committee unanimously recommended the Board of Directors approve entering into the three contracts with Mopani.

**Mutanda ya Mukonkota Mining SPRL (“Mutanda”)** is a copper and cobalt producer located in the DRC. Mutanda is a 40% owned investment of Glencore. There is an agreement in place for employees to use charter flights operated by either company with associated costs invoiced. Additionally, during the three months ended March 31, 2011, and during the year ended December 31, 2010, Mutanda supplied medical services to the Company. These services were provided in the normal course of business and on arm’s length commercial terms.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 24. RELATED PARTY TRANSACTIONS (continued)

#### Transactions

All transactions 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	
	March 31, 2011 \$	March 31, 2010 \$
<b>Purchases from related parties</b>		
Gécamines	4,342	3,305
Glencore	8,869	7,358
Mopani	3,942	4,175
Mutanda	75	-
<b>Sales to related parties</b>		
Mutanda	401	120
Mopani	9,287	8,790
Glencore <sup>(1)</sup>	161,754	131,958

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

	Three months ended	
	March 31, 2011 \$	March 31, 2010 \$
<b>Compensation of key management personnel</b>		
Short-term employee benefits	1,162	1,196
Post-employment benefits (including defined contribution plans)	-	-
Other long-term benefits	-	-
Termination benefits	74	-
Share-based compensation	238	29
<b>Total compensation</b>	<b>1,474</b>	<b>1,225</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 24. RELATED PARTY TRANSACTIONS (continued)

As at	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Amounts owed to related parties</b>			
Gécamines	6,491	9,939	-
Glencore <sup>(2)</sup>	59,601	50,711	18,528
Mopani <sup>(2)</sup>	15,998	20,738	-
Xstrata	-	-	1,915
<b>Amounts owed by related parties</b>			
Gécamines	-	3,035	806
Mopani	22,543	12,387	5,190
Mutanda	482	80	24
Glencore	68,775	74,235	44,774

<sup>(2)</sup> Amount includes customer prepayments.

### 25. INVESTMENTS IN SUBSIDIARIES

The financial statements include the financial statements of the Company and its subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest		
		March 31, 2011	December 31, 2010	January 1, 2010
Global Enterprises Limited	British Virgin Islands	100%	100%	100%
Kamoto Copper Company Sarl	DRC	75%	75%	75%
Kamoto Operating Limited Sprl	DRC	100%	100%	100%
Katanga Mining Finance Limited	Guernsey	100%	100%	100%
Katanga Mining Holdings Limited	Isle of Man	100%	100%	100%
Katanga Mining Services (SA) (Proprietary) Limited	South Africa	100%	100%	100%
Katanga Mining Services (Switzerland) AG	Switzerland	100%	100%	100%
Katanga Mining (UK) Limited	United Kingdom	100%	100%	100%
KFL Limited	British Virgin Islands	100%	100%	100%
KML (BVI) Holdco Limited	British Virgin Islands	100%	100%	100%

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 26. COMMITMENTS

The following table summarizes the Company's contractual and other obligations as at March 31, 2011.

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Payments due by period	\$	\$	\$	\$	\$
Capital expenditure commitments (i)	13,359	13,359	-	-	-
Gécamines lease (ii)	25,200	1,800	5,400	3,600	14,400
<b>Total commitments</b>	<b>38,559</b>	<b>15,159</b>	<b>5,400</b>	<b>3,600</b>	<b>14,400</b>

- (i) 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 by existing cash balances and cash generated by operations.
- (ii) Pursuant to the terms of the New Joint Venture Agreement, all installations and infrastructures within the perimeter of the KCC concession are being rented for an annual lease payment to Gécamines of \$1,800.

The Company and its subsidiaries are also subject to routine legal proceedings and tax audits. The Company does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated earnings, cash flow or financial position.

Guarantees are disclosed in Note 7.

### 27. INCOME TAXES

The following table reconciles the expected income tax expense at the statutory income tax rates to the amounts recognized in the statements of operations:

	Three months ended	
	March 31, 2011	March 31, 2010
	\$	\$
Income before income taxes reflected in the consolidated statements of operations	45,821	32,436
Expected income tax expense at Canadian statutory rates	(13,288)	(9,406)
Effect of difference in foreign tax rates	13,961	11,894
Permanent differences	(1,676)	(4,215)
Current period losses not recognized	1,033	1,431
Adjustment in respect of prior years	(3,851)	-
<b>Income tax expense</b>	<b>(3,821)</b>	<b>(296)</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 27. INCOME TAXES (continued)

The components of the income tax expense comprise:

	Three months ended	
	March 31, 2011 \$	March 31, 2010 \$
Current tax expense		
Canada	-	-
Foreign	188	296
Deferred tax expense		
Canada	-	-
Foreign	3,633	-
	<b>3,821</b>	<b>296</b>

The following table reflects the deferred income tax asset and liability amounts at March 31, 2011, December 31, 2010 and January 1, 2010:

As at	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Deferred income tax assets</b>			
Property, plant and equipment	46	47	35
Tax losses carried forward	301,786	304,235	99,489
Other	16,602	11,980	20
Total deferred income tax assets	318,434	316,172	99,544
<b>Deferred income tax liabilities</b>			
Property, plant and equipment	(982)	(23,463)	(191,468)
Exploration and development	(308,014)	(279,639)	(71,650)
Total deferred tax liabilities	(308,996)	(303,102)	(263,118)
<b>Deferred income tax assets (liabilities) – net</b>	<b>9,438</b>	<b>13,070</b>	<b>(163,574)</b>

The deferred income tax assets of \$318,434 primarily represent tax losses carried forward in the DRC.

As at March 31, 2011, unremitted earnings of \$491,601 (December 31, 2010 - \$442,791; January 1, 2010 - \$258,683) have been retained by subsidiaries for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings. If earnings were remitted, an immaterial tax charge would result based on the tax charges currently in effect.

Gross non-capital losses carried forward of \$41,676 expired on the exchange of the convertible loan facility on June 2, 2009. In addition, gross non-capital losses carried forward of \$52,319 in DRC Copper and Cobalt Project SARL (a former subsidiary) expired on the merger with KCC.

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Expressed in thousands of U.S. dollars, except per share amounts and as otherwise stated)

Three months ended March 31, 2011 and 2010

### 27. INCOME TAXES (continued)

The following table reflects the expiry of the Company's gross non-capital losses available for future use:

As at	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
2013	106,444	106,444	106,444
2014	403,871	403,871	403,871
2029	8,894	8,894	8,894
2030	21,554	21,554	-
2031	4,201	-	-
Do not expire	578,886	568,208	418,166
<b>Total gross non-capital losses</b>	<b>1,123,850</b>	<b>1,108,971</b>	<b>937,375</b>

The following table reflects the expiry of the Company's unrecognized gross losses:

As at	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
2013	16,895	16,895	216,891
2014	50,234	50,234	317,831
2029	8,894	8,894	8,894
2030	21,554	21,554	-
2031	4,201	-	-
Do not expire	33,941	33,737	119,713
<b>Total unrecognized gross non-capital losses</b>	<b>135,719</b>	<b>131,314</b>	<b>663,329</b>

# KATANGA MINING LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Three months ended March 31, 2011 and 2010

### 28. SEGMENTED INFORMATION

The Company has two reportable segments being Corporate and its operations in the DRC. The operations segment mainly comprises the mining, processing and selling of commodity copper and cobalt. The Corporate segment comprises the management of cash and cash equivalents, logistics and general corporate activities conducted in Canada, Switzerland and South Africa.

	Corporate	Operations in DRC	Total
	\$	\$	\$
<b>As at March 31, 2011</b>			
Cash and cash equivalents	15,100	28,428	43,528
Non-current assets	5,776	1,767,633	1,773,409
Other assets	18,779	264,748	283,527
<b>Total assets</b>	<b>39,655</b>	<b>2,060,809</b>	<b>2,100,464</b>
<b>As at December 31, 2010</b>			
Cash and cash equivalents	17,831	23,814	41,645
Non-current assets	5,843	1,727,578	1,733,421
Other assets	21,624	248,169	269,793
<b>Total assets</b>	<b>45,298</b>	<b>1,999,561</b>	<b>2,044,859</b>
<b>As at January 1, 2010</b>			
Cash and cash equivalents	69,179	21,519	90,698
Non-current assets	401	1,542,413	1,542,814
Other assets	20,376	169,858	190,234
<b>Total assets</b>	<b>89,956</b>	<b>1,733,790</b>	<b>1,823,746</b>
<b>Three months ended March 31, 2011</b>			
Sales	-	171,041	171,041
Net (loss) income	(6,977)	48,977	42,000
Depreciation and amortization	(1,793)	(16,180)	(17,973)
Interest income	3	5	8
Income tax expense	-	(3,821)	(3,821)
Additions to mineral interests and property, plant and equipment	(47)	(50,696)	(50,743)
<b>Three months ended March 31, 2010</b>			
Sales	-	140,748	140,748
Net (loss) income	(6,191)	38,331	32,140
Depreciation and amortization	(320)	(13,452)	(13,772)
Interest income	36	-	36
Income tax expense	-	(296)	(296)
Additions to mineral interests and property, plant and equipment	(281)	(30,914)	(31,195)