KATANGA MINING LIMITED

Management's Discussion and Analysis
For the three and six months ended
June 30, 2011 and 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following discussion and analysis is management's assessment of the results of operations and financial condition of Katanga Mining Limited ("Katanga" or the "Company") and should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto of the Company for the three and six months ended June 30, 2011. The unaudited interim condensed consolidated financial statements 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").. **All dollar amounts are in United States dollars unless otherwise indicated**. This information has been prepared as of August 12, 2011. Katanga's common shares, warrants and notes trade on the Toronto Stock Exchange ("TSX") under the symbols "KAT", "KAT.WT" and "KAT.NT", respectively. Katanga's most recent filings, including Katanga's Annual Information Form dated March 31, 2011, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the internet at www.sedar.com.*

1. Company Overview

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 and its shareholders have approved the continuance of Katanga from Bermuda to the Yukon Territory of Canada which is in the process of being completed. Katanga's ultimate parent company is Glencore International plc ("Glencore plc") which owns approximately 74% of Katanga's shares through Jangleglade Limited and other Glencore plc subsidiaries.

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 Luilu Metallurgical Plant (collectively, the "Project"), in the DRC.

2. Highlights and Outlook

Highlights during the three ("Q2") and six ("H1") months ended June 30, 2011

- During Q2 2011, the Company mined 1,296,012 tonnes of ore at a grade of 4.39% resulting in contained copper in ore mined of 56,874 tonnes, 19% higher than Q1 2011 and 124% higher than Q2 2010. For H1 2011, contained copper in ore mined amounted to 104,527 tonnes representing an increase of 117% from H1 2010. The annualized contained copper in ore mined for Q2 2011 amounts to approximately 227,000 tonnes and has allowed an increase in contained copper in strategic stockpiles of approximately 5,000 tonnes (when compared to Q1 2011) in anticipation of the upcoming wet season.
- Ore mined and hoisted at KTO Underground Mine for Q2 2011, at 415,028 tonnes, represents an 8% increase compared to Q1 2011 and a 33% increase on Q2 2010. For H1 2011, ore mined and hoisted totaled 798,643 tonnes representing an increase of 31% on H1 2010.
- Ore mined at KOV Open Pit for Q2 2011, at 603,070 tonnes, was 10% above Q1 2011 (no ore was mined in Q2 2010). This is equivalent to an annualized production capacity of 2.4 million tonnes which is consistent with the 2012 production rate and the ramp up schedule as described in Katanga's Independent Technical Report dated March 31, 2011 (the "ITR") available on SEDAR at www.sedar.com. The copper grade of ore mined from KOV Open Pit for Q2 2011 averaged 5.05%.
- KOV Open Pit is now effectively dewatered with 52.7 million cubic litres of water having been removed.
- During Q2 2011, the Company commenced with the dewatering of the Kamoto East pit which is adjacent to KOV Open Pit and the water level to date has dropped by 4.37 meters with 1.5 million cubic meters of water having been removed. The Kamoto East pit dewatering is expected to allow for more efficient and cost effective waste management and the potential development of the Kamoto East resource using underground mining methods.
- Ore milled at KTC for Q2 2011, at 1,085,484 tonnes represents a 22% increase from Q1 2011 and a 54% increase from Q2 2010. For H1 2011, ore milled at KTC was 1,974,785 tonnes, an increase of 49% from H1 2010. The current milling capacity at KTC of 7.68 million tonnes of ore per annum is sufficient milling capacity to support the Life of Mine Plan through to 2014 described in the ITR.
- Copper produced in metal and concentrate for Q2 2011 totaled 24,370 tonnes, an increase of 33% and 92%, respectively compared to Q1 2011 and Q2 2010. Cobalt produced totaled 663 tonnes, an increase of 4% compared to the Q1 2011.
- Total sales for Q2 2011, were $165.6 million, comprised of $121.9 million for copper cathode (14,870 tonnes), $25.2 million for cobalt metal (734 tonnes) and $18.5 million for copper concentrate (3,113 tonnes of contained copper).
- For Q2 2011, the Company generated a gross profit of $44.0 million, net income of $43.6 million and cash generated from operating activities of $23.6 million.
- C1 cash costs for Q2 2011 were $1.79 per pound of copper. C1 cash costs per pound of copper are cash costs including mining, processing, administration and refining, net of cobalt credits – see item 20 Non-IFRS measures.

- The Company continues to increase the production of oxide concentrate for sale as a finished product and the construction of a 120,000 tonnes per annum concentrate filtration and bagging facility is expected to be completed in August 2011.
- The Company announced the appointment of Jeff Best as Chief Operating Officer on May 6, 2011.

Outlook

- During Q2 2011, the Company completed the front-end engineering and early works study for the New Phase 4 expansion of the Project to 310,000 tonnes of copper total plant capacity per annum. The study describes:
    - an additional 100ktpa solvent extraction ("SX") plant, over and above the 200ktpa SX plant described in the ITR, to be constructed in front of the existing Luilu electrowinning plant;
    - the expectation that the Company will reach higher copper and cobalt production levels sooner than the timelines as described in the ITR; and
    - an increase in expansionary capital expenditures from approximately $537 million as described in the ITR to approximately $630 million due primarily to the inclusion of the additional SX plant and an in-pit crusher at KOV Open Pit;

  The Company is in the process of evaluating the implications of the study and expects to make an announcement regarding the way forward in due course.
- The Company completed all critical scopes of work relating to the refurbishment program associated with the previously disclosed Accelerated Development Plan during July 2011. This has increased production capacity to 150,000 tonnes per annum of copper and 8,000 tonnes per annum of cobalt.
- For July 2011, copper produced in metal and concentrate exceeded 9,000 tonnes.
- The Company is in the process of identifying a new Chief Executive Officer to replace Mr. John Ross and would like to thank Mr. Ross for his continued service during the transition period.

3. Summary of Quarterly Results

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

	2009 Q3 CGAAP	2009 Q4 CGAAP	2010 Q1 IFRS	2010 Q2 IFRS	2010 Q3 IFRS	2010 Q4 IFRS	2011 Q1 IFRS	2011 Q2 IFRS
($ millions except where indicated)								
Statement of Operations								
Total sales	76.2	100.0	140.7	115.2	129.4	150.7	171.0	165.6
Cost of sales*	(74.2)	(83.2)	(101.9)	(110.7)	(99.4)	(114.4)	(119.0)	(121.6)
Gross profit	2.1	16.8	38.8	4.4	30.0	36.3	52.0	44.0
General administrative and other expenses	(11.5)	(8.6)	(6.4)	1.8	(4.5)	(8.5)	(6.2)	(2.9)
Restructuring (expenses) income	0.8	11.2	-	-	-	14.4	-	-
Debenture interest	(4.4)	(4.6)	-	-	-	-	-	-
Interest income	0.9	0.6	0.0	0.0	0.1	0.1	0.0	0.1
Net (loss) income	(12.6)	15.3	32.1	6.3	25.4	218.7	42.0	43.6
Basic (loss) income per common share ($ per share)	(0.01)	0.01	0.02	0.01	0.01	0.09	0.02	0.02
Realized copper price ($ per lb)**	2.75	3.27	3.31	2.61	3.29	4.21	4.00	3.72
Realized cobalt price ($ per lb)	14.73	17.25	18.95	16.73	16.67	14.22	16.82	15.56
Realized concentrate price ($ per tonne)	-	-	2,660	2,727	908	1,209	1,649	1,196
Total copper sold (tonnes)	9,623	10,275	12,915	14,465	12,632	12,036	15,056	14,870
Total copper produced (tonnes)	10,351	13,382	12,458	12,554	12,826	14,345	12,542	15,075
Total cobalt sold (tonnes)	620	680	900	801	902	842	781	734
Total cobalt produced (tonnes)	628	824	889	887	852	809	635	663
Total concentrate sold (tonnes)	-	-	3,304	840	5,045	10,403	5,632	15,510
Statement of Financial Position								
Cash and cash equivalents	152.8	77.2	131.7	111.1	51.4	41.6	43.5	23.6
Other current assets	158.1	190.4	180.6	174.7	236.6	269.8	283.5	302.5
Mineral interests, property, plant and equipment and other long term assets	1,450.7	1,484.0	1,565.2	1,616.5	1,663.9	1,733.4	1,773.4	1,839.8
Total assets	1,761.6	1,751.7	1,877.5	1,902.2	1,952.0	2,044.9	2,100.5	2,166.0
Current liabilities	162.8	136.8	168.3	190.2	212.1	240.8	251.7	248.9
Debentures payable	108.6	112.9	116.9	113.9	116.4	120.4	124.3	124.1
Other non-current liabilities	228.8	224.9	222.3	221.8	221.3	62.5	60.9	85.4
Total liabilities	500.2	474.7	507.5	525.9	549.9	423.7	436.9	458.5
Total equity	1,261.4	1,277.0	1,370.0	1,376.4	1,402.1	1,621.2	1,663.6	1,707.5
Cash Flow								
Operating activities	(48.8)	(19.9)	80.8	41.0	(1.1)	54.4	60.0	23.6
Investing activities	(14.7)	(56.7)	(31.2)	(61.9)	(49.7)	(70.8)	(50.7)	(78.0)
Financing activities	74.7	-	(8.5)	-	-	-	(8.7)	34.4

The effective transition date from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS was January 1, 2010. As a result the quarters headed "CGAAP" in the above table have not been restated to IFRS.

* Includes royalty payments, transportation costs, depreciation and amortization.

** Includes impact of provisionally priced sales which retain exposure to future changes in commodity prices being marked-to-market based on the London Metal Exchange ("LME") forward rate for copper at the balance sheet date and repricing of those provisional sales in future periods.

Over the last eight quarters as production and commodity prices have increased, there has been a steady improvement in the operating results of the Company. This improvement in results is also reflected in the improved cash flows from operating activities. Investing activities have increased as the Company commenced the Accelerated Development Plan and this has also resulted in an increase in the net additions to mineral interest and other assets. Other movements on the statement of financial position can be primarily attributed to the increase in production. The net income for the last quarter of 2010 includes a non-cash future income tax recovery of $176.0 million.

The following production information sets out the quarterly results of the Company for the last eight quarters:

	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2
Cobalt and Copper Production Statistics								
Underground Mining								
Waste mined (tonnes)	18,234	33,157	49,229	80,484	103,224	120,588	107,856	116,340
Ore mined (tonnes)	311,803	329,703	297,435	311,180	329,027	372,093	383,615	415,028
Copper grade (%)	3.78	3.84	4.15	4.01	3.52	3.65	3.61	3.84
Cobalt grade (%)	0.46	0.53	0.53	0.56	0.61	0.54	0.50	0.54
Open Pit Mining - T17								
Waste mined (tonnes)	5,619,369	3,892,979	1,390,802	2,522,063	1,060,928	664,250	586,206	490,012
Ore mined (tonnes)	398,302	658,128	618,128	513,478	548,108	265,027	126,405	277,914
Copper grade (%)	1.17	1.08	1.68	2.50	2.96	3.83	2.34	3.77
Cobalt grade (%)	0.75	0.93	0.95	0.90	0.99	0.98	1.09	0.98
Open Pit Mining - KOV								
Waste mined (tonnes)	-	-	1,924,785	7,787,142	8,033,220	3,953,698	3,136,229	5,001,372
Ore mined (tonnes)	-	-	-	-	203,793	518,531	546,033	603,070
Copper grade (%)	-	-	-	-	2.24	5.29	5.65	5.05
Cobalt grade (%)	-	-	-	-	0.29	0.30	0.40	0.45
Concentrator								
Ore processed (tonnes)	539,107	581,876	620,671	703,282	762,060	839,391	889,301	1,085,484
Concentrate produced (tonnes)	50,908	54,782	67,686	70,108	78,233	87,046	103,811	135,169
Metullurgical Plant								
Total concentrate feed (tonnes)	39,443	62,228	62,790	63,891	62,617	73,368	63,650	78,390
Copper produced (tonnes)	10,351	13,382	12,458	12,554	12,826	14,345	12,542	15,075
Cobalt produced (tonnes)	628	824	889	887	852	809	635	663

4. Selected Annual Information

	Year ended December 31,		
	2008 CGAAP	2009 CGAAP	2010 IFRS
($ millions except where indicated)			
Total revenues*	210.0	285.5	535.9
(Loss) income before income taxes*	(1,706.0)	(105.0)	106.6
Basic (loss) income per common share ($ per share)*	$(6.51)	$(0.09)	$0.13
Total assets**	1,471.9	1,823.7	2,044.9
Total long term financial liabilities**	(426.7)	(335.7)	(182.8)

The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result certain of the above selected annual information has not been restated to IFRS:

* 2008 and 2009 amounts prepared in accordance with Canadian GAAP

** 2008 amounts prepared in accordance with Canadian GAAP

As discussed previously, in the summary of quarterly results above, the movements in the selected annual information can be explained by the increase in production, positive movements in commodity prices and investment in the expansion and rehabilitation of the production assets. The loss before income taxes of $1,706.0 million in 2008 includes an expense of $1,544.4 million for the impairment of mineral properties and inventories. In 2008, as a consequence of deterioration in the credit markets brought on by the global economic downturn and a significant decrease in commodity prices, the Company revised its business plan to a phased expansion approach. With consideration to this revised business plan and the market deterioration, the fair value of the Company's mineral properties was impaired using a discounted cash flow approach. Following this impairment and with the recovery of commodity prices, the Company revised its business plan again and implemented the Accelerated Development Plan to increase capacity to 150,000 tonnes and issued a revised Technical Report (Item 17).

5. Production for the second quarter

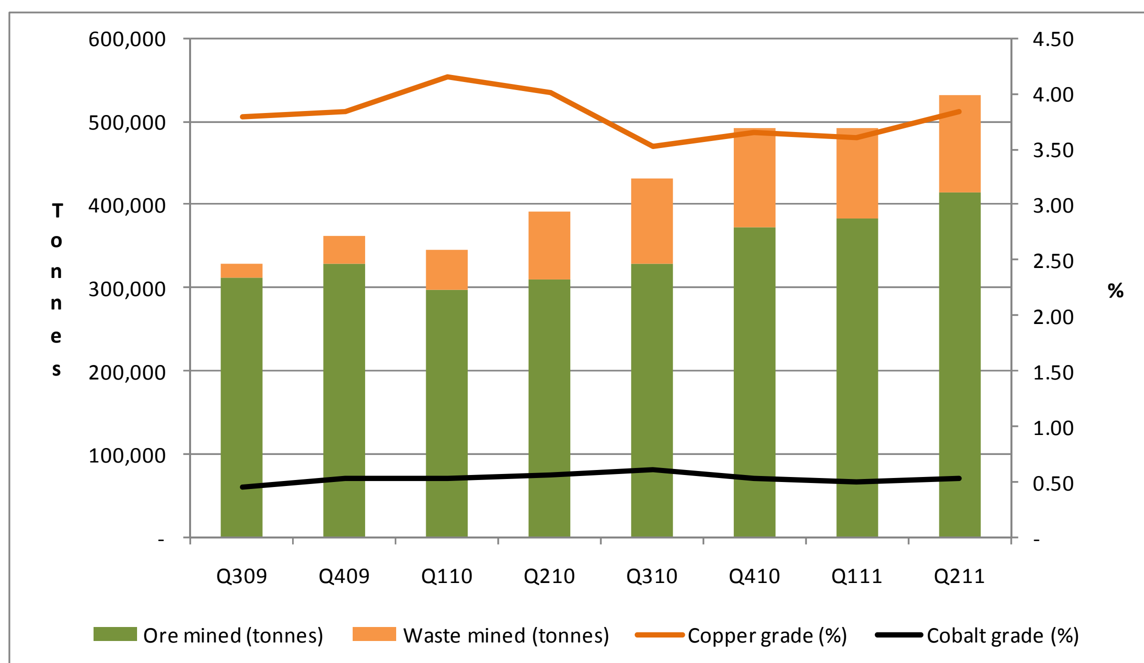
The process of producing copper cathode, cobalt metal and concentrate is achieved through distinct processes which are described and reviewed below. The production statistics for each of these areas is presented in item 3 – Summary of Quarterly Results and below in graphical analysis.

KTO Underground Mine

During the second quarter of 2011, 415,028 tonnes of ore (quarter ended June 30, 2010 – 311,180 tonnes) and 116,340 tonnes of waste (2010 – 80,484 tonnes) were mined from underground. An average copper grade of 3.84% (2010 – 4.01%) and an average cobalt grade of 0.54% (2010 – 0.56%) were achieved.

During the first six months of 2011, 798,643 tonnes of ore (first six months ended June 30, 2010 – 608,615 tonnes) and 224,197 tonnes of waste (2010 – 129,713 tonnes) were mined from underground. An average copper grade of 3.73% (2010 – 4.08%) and an average cobalt grade of 0.52% (2010 – 0.55%) were achieved.

During the second quarter of 2011, ore production from KTO Underground Mine increased by 8% relative to the previous quarter and was 4% above target. KTO Underground Mine has therefore continued the trend of increased productivity and management expects it will meet the current mine plan going forward.

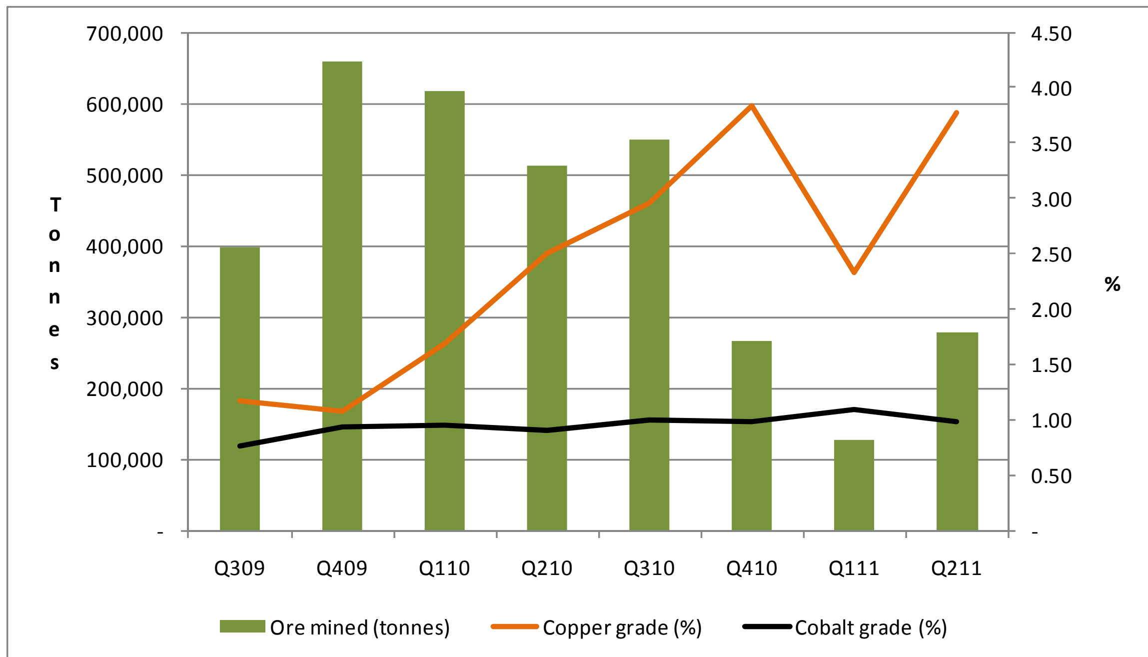


T17 Open Pit

At T17 Open Pit, in the second quarter ended June 30, 2011, 277,914 tonnes of ore were mined (2010 – 513,478 tonnes) with an average copper grade of 3.77% (2010 – 2.50%) and an average cobalt grade of 0.98% (2010 – 0.90%). 490,012 tonnes of waste were removed in the second quarter (2010 – 2,522,063 tonnes). The strip ratio for the three months ended June 30, 2011 was 1.76 compared to 4.91 for the same period in 2010 which is in line with the mine plan.

At T17 Open Pit, in the first six months ended June 30, 2011, 404,319 tonnes of ore were mined (2010 – 1,131,606 tonnes) with an average copper grade of 3.32% (2010 – 2.06%) and an average cobalt grade of 1.01% (2010 – 0.93%). 1,076,218 tonnes of waste were removed in the first six months (2010 – 3,912,865 tonnes). The strip ratio for the six months ended June 30, 2011 was 2.66 compared to 4.50 for the same period in 2010 which is in line with the mine plan.

As a result of sufficient ore stockpiles and due to the increasing productivity at KOV Open Pit, mining at T17 Open pit was suspended at the end of the second quarter. Mining is expected to recommence in the first quarter of 2012 and prior to the recommencement of mining, the Company expects to complete the geotechnical work and mine planning to allow for the development of an underground mine to exploit the additional resource below the current pit design floor.



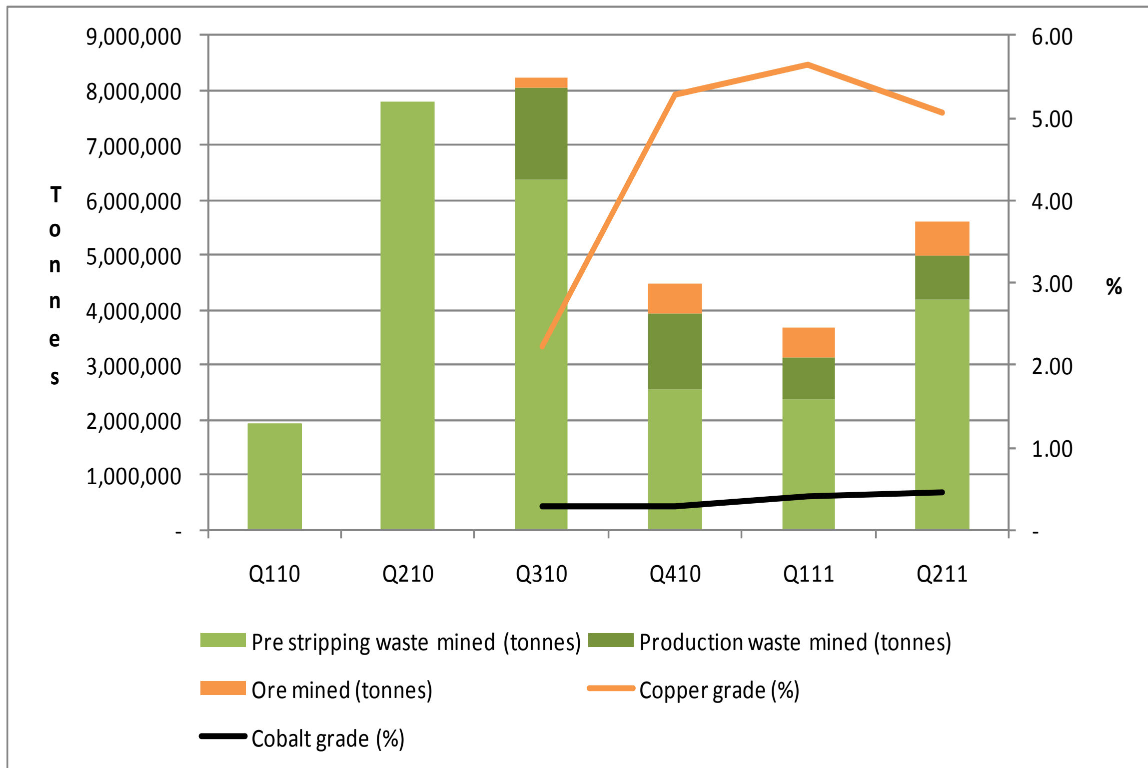
KOV Open Pit

603,070 tonnes of ore were mined in the three months ended June 30, 2011 (second quarter 2010 – nil, first quarter 2011 – 546,033 tonnes), with an average copper grade of 5.05% (first quarter 2011 – 5.65%) and cobalt grade of 0.45% (first quarter 2011 – 0.40%). Total waste mined for the quarter was 5,001,372 tonnes (second quarter 2010 – 7,787,142 tonnes) of which 4,192,374 tonnes were a result of pre-strip activities in Cut1b.

1,149,103 tonnes of ore were mined in the six months ended June 30, 2011 (first half 2010 – nil, second half 2010 – 722,324 tonnes), with an average copper grade of 5.34% (second half 2010 – 4.43%) and cobalt grade of 0.43% (second half 2010 – 0.30%). Total waste mined for the first half was 8,137,601 tonnes (first half 2010 – 9,711,927 tonnes) of which 6,552,477 tonnes were a result of pre-strip activities in Cut1b.

During the quarter, satisfactory progress has been made on pre-strip activities in Cut 1b to secure production requirements for 2012 onwards. In addition, the Company commenced the dewatering of the Kamoto East pit which is adjacent to KOV open pit and which is expected to allow for more efficient and cost effective waste management and the potential development of the Kamoto East resource using underground mining methods.

In addition to the current mine plan, 27,030 tonnes of sulphide ore (first quarter 2011 – 59,680 tonnes) at an average copper grade of 7.63% (first quarter 2011 – 8.30%) were mined from an intrusive vein adjacent to the main oxide resource in both Cut1a and Cut1d. This sulphide ore is being used to supplement production from KTO and is expected to continue at a consistent rate throughout the third quarter.



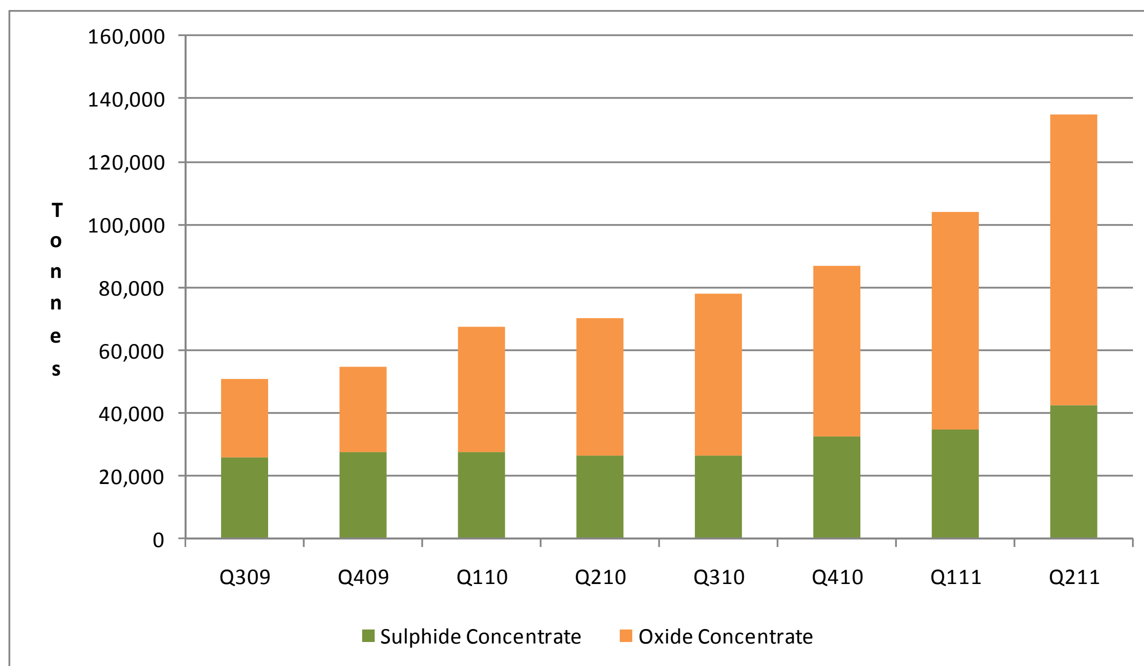
Kamoto Concentrator

The Kamoto Concentrator ("KTC") processes ore from KTO Underground Mine and both the KOV and T17 Open Pits. In the second quarter ended June 30, 2011, KTC processed 1,085,484 tonnes of ore (quarter ended June 30, 2010 – 703,282 tonnes) from which 135,169 tonnes of concentrate were produced (2010 – 70,108 tonnes).

In the six months ended June 30, 2011, KTC processed 1,974,785 tonnes of ore (six months ended June 30, 2010 – 1,323,953 tonnes) from which 238,981 tonnes of concentrate were produced (2010 – 137,794 tonnes).

During the second quarter of 2011, both ore processed and concentrate produced continued the trend of quarter on quarter increases and KTC continues to meet planned recoveries .

The CM6 and CM7 mills are now fully operational and utilization has increased during the second quarter following the commissioning of the B4 jaw crusher. KTC will continue to utilize the excess milling capacity to produce oxide concentrate as a finished product for sale. In the three months ended June 30, 2011, the Company produced 42,440 tonnes of oxide concentrate for sale (second quarter 2010 – 393 tonnes; first quarter 2011 – 24,779 tonnes) with contained copper of 9,295 tonnes (first quarter 2011 – 5,842 tonnes). The Company expects to increase the production of oxide concentrate as a finished product in future quarters and construction of a 10,000 tonne per month concentrate filtration and bagging facility at KTC is nearing completion.



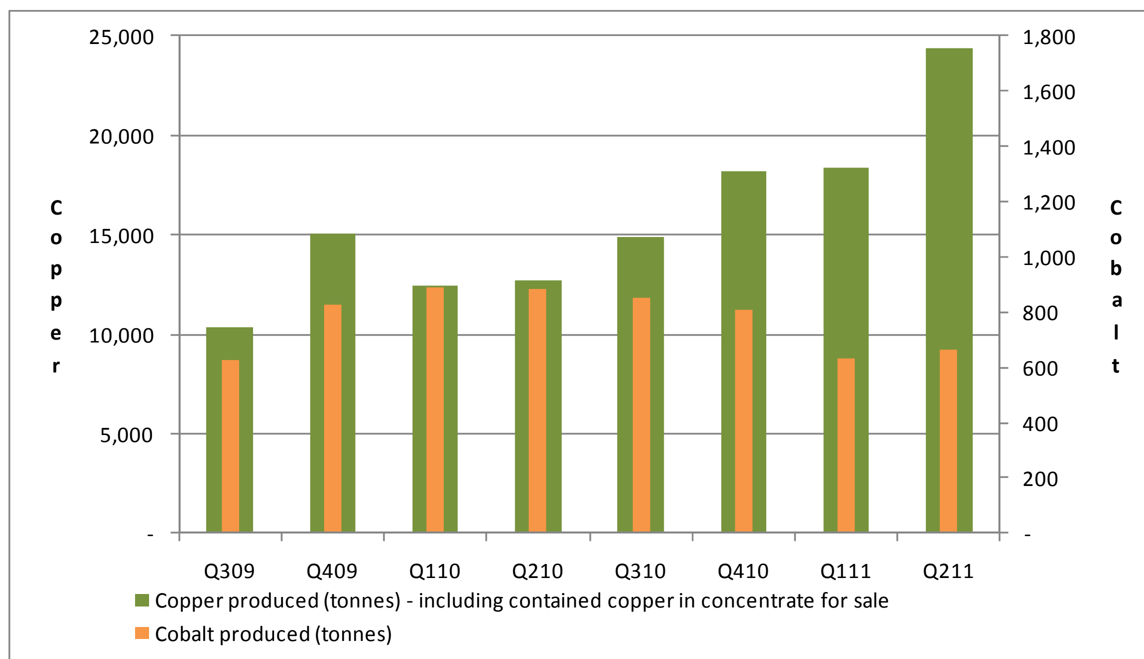
Luilu processing plant

The Luilu processing plant is an electrowinning plant that processes sulphide and oxide concentrate from KTC. In the second quarter ended June 30, 2011, 15,075 tonnes of copper (quarter ended June 30, 2010 –12,554 tonnes) and 663 tonnes of cobalt (2010 – 887 tonnes) were produced.

In the six months ended June 30, 2011, 27,617 tonnes of copper (six months ended June 30, 2010 – 25,012 tonnes) and 1,298 tonnes of cobalt (2010 – 1,776 tonnes) were produced.

Copper production for the quarter is the highest in the Company's history and represents a 20% improvement on the first quarter of 2011.

The Company completed all critical scopes of work relating to the refurbishment program associated with the previously disclosed Accelerated Development Plan during July 2011. This has increased production capacity to 150,000 tonnes per annum of copper and 8,000 tonnes per annum of cobalt.



6. Changes in Accounting Policies

First time adoption of International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies are required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

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 June 30, 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.

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 $'000	January 1, 2010 $'000
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
Total assets under IFRS		**2,044,859**	**1,823,746**

Total liabilities

As at	Note	December 31, 2010 $'000	January 1, 2010 $'000
Total liabilities under Canadian GAAP		401,445	474,667
Adjustments for differing accounting treatments			
Non-IFRS reclassifications	(iv)	22,210	11,241
Total liabilities under IFRS		**423,655**	**485,908**

Total equity attributable to shareholders of the Company

As at	Note	December 31, 2010 $'000	June 30, 2010 $'000	January 1, 2010 $'000
Total equity under Canadian GAAP		1,542,713	1,306,651	1,276,984
Adjustments for differing accounting treatments				
Capitalization of borrowing costs	(i)	78,491	69,725	60,854
Recognition of non-controlling interests	(ii)	(28,481)	11,364	-
Total equity attributable to shareholders of the Company under IFRS		**1,592,723**	**1,387,740**	**1,337,838**

Net income and total comprehensive income

	Note	Year ended December 31, 2010 $'000	Six months ended June 30, 2010 $'000	Three months ended June 30, 2010 $'000
Net and total comprehensive income under Canadian GAAP		264,976	29,602	2,009
Basic and diluted income per common share under Canadian GAAP		$0.14	$0.02	$0.00
Adjustments for differing accounting treatments				
Capitalization of borrowing costs	(i)	18,782	9,418	4,626
Amortization of borrowing cost asset	(i)	(1,145)	(546)	(301)
Recognition of non-controlling interests	(ii)	(28,481)	11,365	11,165
Net and total comprehensive income attributable to shareholders of the Company under IFRS		**254,132**	**49,839**	**17,499**
Basic and diluted income per common share under IFRS		**$0.13**	**$0.03**	**$0.01**

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.

(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 Gécamines' 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 Company's statement of financial position and statement of operations and comprehensive income that represents the 25% share that pertains to Gécamines' 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 six months ended June 30,2011 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.

Under IFRS - Warrants denominated in a currency other than the functional currency of the issuer are 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.

(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 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:

As at	**December 31, 2010 $'000**	**January 1, 2010 $'000**
Increase in receivables	8,968	18,077
Decrease in prepayments 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)
Change in net assets	**-**	**-**

Note on component accounting

IAS 16: Property, Plant and Equipment requires that where an item of property, plant and equipment ("PPE") comprises major components with different useful lives, the components are accounted for as separate items of PPE. Canadian GAAP requires that the cost of an item of PPE made up of significant separable component parts is allocated to the component parts when practicable; the concept of practicability is not specifically mentioned in IAS 16. While the requirements are similar, there is a common view that implementing this element of IFRS requires more detailed accounting records than were maintained under Canadian GAAP.

Due to the significant number of individual items of PPE present in the PPE registers of the Company, management elected to use the statistical methodology of stratifying the PPE carrying value in conducting its components review. Management reviewed the PPE registers identifying individual items of PPE whose carrying values were deemed to be significant. The cut-off level for significance was deemed to be $1.0 million, that is, 0.06% of the carrying value of PPE as at the January 1, 2010 transition date. By this method, 94.2% of the carrying value of PPE was reviewed. This review concluded that the Company's accounting records are maintained at an appropriate level of componentization to satisfy the requirements of IAS16 and therefore there was no adjustment required for the adoption of IFRS.

Outlook for third quarter of 2011

The International Accounting Standards Board continues to amend and add to current IFRS standards with several projects currently underway. The Company continues to monitor actual and anticipated changes to IFRS standards and related rules and regulations and continues to assess the impacts of these changes on the Company and its reporting, including expected dates of when such impacts are effective.

7. 2011 Second Quarter Financial Discussion

Operating Results

	Three Months Ended	
	June 30, 2011 $'000	June 30 2010 $'000
Copper sales	121,907	83,323
Cobalt sales	25,186	29,539
Copper concentrate sales	18,548	2,291
Cost of sales*	(121,629)	(110,715)
	44,012	4,438
Other (expenses) income	(2,843)	1,866
Income tax recovery	2,477	30
Net income	43,646	6,334
Non-controlling interests	17	11,165
Attributable to shareholders of the Company	43,663	17,499
Basic and diluted income per common share	$0.02	$0.01

**Includes royalty payments, transportation costs, depreciation and amortization*

The Company reported net income attributable to shareholders of the Company for the three months ended June 30, 2011 of $43.7 million, $0.02 basic income per share, compared with a net income attributable to shareholders of the Company for the comparable quarter in 2010, of $17.5 million, $0.01 basic income per share.

- Copper sales increased by $38.6 million for the three months ended June 30, 2011 compared to the same period in 2010 due to:
  - an increase in copper cathodes sold from 14,465 to 14,870 tonnes as production capacity has increased; and
  - an increase in the realized copper price per pound to $3.72 from $2.61 as a result of the increase in commodity prices compared to the prior period.
- Cobalt sales decreased by $4.4 million due to:
  - cobalt metal sales decreasing from 801 to 734 tonnes due to the decrease in higher cobalt grade material mined from the T17 Open Pit partially offset by the increase in lower cobalt grade material mined from the KOV open pit; and
  - a decrease in the realized cobalt price per pound to $15.56 from $16.73 as a result of the decrease in cobalt prices compared to the prior period.
- Copper concentrate sales increased by $16.3 million for the three months ended June 30, 2011 compared to the same period in 2010 due to:
  - an increase in concentrate sold from 840 to 15,510 tonnes as production capacity has increased; offset by
  - a decrease in the realized copper price per tonne to $1,196 from $2,727 as a result of the lower contained copper per tonne of oxide concentrate sold. During the three months ended June 30, 2010, sulphide concentrate (with higher contained copper per tonne) was sold.
- Included in revenue is a net re-pricing gain during the three months ended June 30, 2011, for copper, cobalt and concentrate of $11.0 million (three months ended June 30, 2010, $15.8 million). Re-pricing adjustments result from sales being made at a provisional price in the month of shipment with final pricing based on average prices at a specified period thereafter.

- Included in the net re-pricing gain are movements in the marked-to-market provision for provisionally priced copper. The current three months represented a loss of $0.5 million (three months ended June, 2010 – loss of $15.6 million).
- The cost of sales for the three months ended June 30, 2011, totalled $121.6 million (three months ended June 30, 2010, $110.7 million). The major variance between the periods being:
  - Royalty payments and transportation costs for three months ended June 30, 2011 were $3.1 million higher than for the three months ended June 30, 2010. The increase was a result of higher royalty payments in the three months ended June 30, 2011, related to increased sales revenue and an increase in transportation costs with more tonnes of finished and concentrate product being shipped.
  - Costs directly attributable to mining operations (KTO, KOV and T-17), processing operations (Kamoto concentrator and Luilu processing plant) and engineering costs for the three months ended June 30, 2011 increased by $16.0 million compared to the same period in 2010. This was as a result of the increase in mining costs of $6.5 million due to the increased mining volumes at KOV and KTO and an increase in processing costs of $8.9 million due to the increased volumes.
  - Site infrastructure and support costs of $25.1 million for site operating and maintenance costs not directly attributable to individual operations (three months ended June 30, 2010, $19.6 million) increased due to the production volume increase.
  - $13.3 million has been credited against cost of sales and added to inventories with respect to production costs applicable to the increased level of work in progress and finished goods not yet sold (three months ended June 30, 2010, $6.1 million charged due to the reduced inventory levels in that period).
  - Depreciation and amortization of $17.3 million in the three months ended June 30, 2011, represented an increase of $2.2 million on the same three months in 2010. The increase is a result of the additional amortization and depreciation being charged due to the increase in capacity achieved from the completion of Phase II of the rehabilitation project and the commencement of commercial production at KOV.
  - Impairment of property, plant and equipment of $3.6 million on the sale and finance lease back of mining equipment during the three months ended June 30, 2011.
- The other expenses for the three months ended June 30, 2011, were $2.8 million (three months ended June 30, 2010 - $1.9 million gain). The major variances were:
  - A decrease in the foreign exchange gain of $3.1 million mainly due to the strengthening of the US dollar in the three months ended June 30, 2011 which resulted in a foreign exchange gain being incurred on the Canadian dollar denominated debenture (for the three months ended June 30, 2010, the US dollar strengthened more significantly); offset by
  - An increase in interest expense of $1.0 million due to increased funding remitted to the DRC which exacts comparatively high bank charges on inward transfers; and
  - A $0.6 million increase in corporate overheads.
- Income tax recovery of $2.5 million which was $2.4 million higher than the comparative three months due to deferred income tax credits recognised.

Cash Flows

Cash flow from (used in):	Three Months Ended	
	June 30, 2011 $'000	June 30, 2010 $'000
Operating activities	23,608	40,985
Investing activities	(78,003)	(61,868)
Financing activities	34,423	-

- For the three months ended June 30, 2011, cash inflows from operating activities were $23.6 million (three months ended June 30, 2010 – $41.0 million). The net decrease of $17.4 million was primarily due to:
    - The increase in net income, net of non cash items, of $42.5 million, as already discussed; offset by
    - A working capital outflow of $37.7 million (three months ended June 30, 2010 - $22.2 million inflow). The significant change being due to a result of a decrease in accounts payable and accrued liabilities of $47.2 million (payment of creditors at June 30, 2010 was delayed due to an extended holiday in the DRC) and an increase in inventories of $16.6 million due to increased production, when compared to the previous year's first three month's movement.
- Investing activities in the three months ended June 30, 2011, totalled $78.0 million which was an increase of $16.1 million on the three months ended June 30, 2010. The additions to mineral interests and property plant and equipment relate mainly to the additional expenditures incurred on the Phase III capital expansion and the KOV pre-strip. During the first three months ended June 30, 2011, proceeds from disposals of property, plant and equipment totalled $1.2 million (three months ended June 30, 2010 - $1.0 million).
- Financing activities in the three months ended June 30, 2011, totalled $34.4 million (three months ended June 30, 2010 – nil). During the quarter ended June 30, 2011, the Company sold and leased back a significant portion of KCC's mining machinery and equipment to its primary mine contractor. The net book value of the items sold amounted to $38.0 million and sale proceeds amounted to $34.4 million. The mining contractor contractually agreed to use the assets solely for mining on the Company's property. As such, the arrangement has been recognised as finance lease transaction and the assets have been included in property, plant and equipment. Further, the loss on disposal of $3.6 million has been recognised as an impairment during the period.

8. 2011 First Half Financial Discussion

Operating Results

	Six Months Ended	
	June 30, 2011 $'000	June 30 2010 $'000
Copper sales	254,703	177,676
Cobalt sales	54,144	67,144
Copper concentrate sales	27,835	11,081
Cost of sales*	(240,672)	(212,628)
	96,010	43,273
Other expenses	(9,020)	(4,533)
Income tax expense	(1,344)	(266)
Net income	85,646	38,474
Non-controlling interests	(122)	11,365
Attributable to shareholders of the Company	85,524	49,839
Basic and diluted income per common share	$0.04	$0.03

**Includes royalty payments, transportation costs, depreciation and amortization*

The Company reported net income attributable to shareholders of the Company for the six months ended June 30, 2011 of $85.5 million, $0.04 basic income per share, compared with a net income attributable to shareholders of the Company for the comparable quarter in 2010, of $49.8 million, $0.03 basic income per share.

- Copper sales increased by $77.0 million for the six months ended June 30, 2011 compared to the same period in 2010 due to:
  - an increase in copper cathodes sold from 27,380 to 29,926 tonnes as production capacity has increased; and
  - an increase in the realized copper price per pound to $3.86 from $2.94 as a result of the increase in commodity prices compared to the prior period.
- Cobalt sales decreased by $13.0 million due to:
  - cobalt metal sales decreasing from 1,701 to 1,515 tonnes due to the decrease in higher cobalt grade material mined from the T17 Open Pit partially offset by the increase in lower cobalt grade material mined from the KOV open pit; and
  - a decrease in the realized cobalt price per pound to $16.21 from $17.90 as a result of the decrease in cobalt prices compared to the prior period.
- Copper concentrate sales increased by $16.8 million for the six months ended June 30, 2011 compared to the same period in 2010 due to:
  - an increase in concentrate sold from 4,144 to 21,142 tonnes as production capacity has increased; and
  - a decrease in the realized price per tonne to $1,317 from $2,674 as a result of the lower contained copper per tonne of oxide concentrate sold. During the six months ended June 30, 2010, sulphide concentrate (with higher contained copper per tonne) was sold.
- Included in revenue is a net re-pricing loss during the six months ended June 30, 2011, for copper, cobalt and concentrate of $6.1 million (six months ended June 30, 2010, $7.5 million). Re-pricing adjustments result from sales being made at a provisional price in the month of shipment with final pricing based on average prices at a specified period thereafter.

- Included in the net re-pricing gain are movements in the marked-to-market provision for provisionally priced copper. The first six months represented a loss of $7.5 million (six months ended June, 2010 – loss of $12.9 million).
- The cost of sales for the six months ended June 30, 2011, totalled $240.7 million (six months ended June 30, 2010, $212.6 million). The major variance between the periods being:
    - Royalty payments and transportation costs for six months ended June 30, 2011 were $10.4 million higher than for the six months ended June 30, 2010. The increase was a result of higher royalty payments in the six months ended June 30, 2011, related to increased sales revenue and an increase in transportation costs with more tonnes of finished and concentrate product being shipped.
    - Costs directly attributable to mining operations (KTO, KOV and T-17), processing operations (Kamoto concentrator and Luilu processing plant) and engineering costs for the six months ended June 30, 2011 increased by $31.4 million compared to the same period in 2010. This was as a result of the increase in mining costs of $18.2 million due to the increased mining volumes at KOV and KTO and an increase in processing costs of $12.8 million due to the increased volumes.
    - Site infrastructure and support costs of $43.8 million for site operating and maintenance costs not directly attributable to individual operations (six months ended June 30, 2010, $32.7 million) increased due to the production volume increase.
    - $15.7 million has been credited against cost of sales and added to inventories with respect to production costs applicable to the increased level of work in progress and finished goods not yet sold (six months ended June 30, 2010, $16.7 million charged due to the reduced inventory levels in that period).
    - Depreciation and amortization of $35.3 million in the six months ended June 30, 2011, represented an increase of $4.0 million on the same six months in 2010. The increase is a result of the additional amortization and depreciation being charged due to the increase in capacity achieved from the completion of Phase II of the rehabilitation project and the commencement of commercial production at KOV.
    - Impairment of property, plant and equipment of $3.6 million on the sale and finance lease back of mining equipment during the six months ended June 30, 2011.
- The other expenses for the six months ended June 30, 2011, were $9.0 million (six months ended June 30, 2010 - $4.5 million). The major variances were:
    - A increase in the foreign exchange loss of $1.5 million mainly due to the weakening of the US dollar in the six months ended June 30, 2011 which resulted in a foreign exchange loss being incurred on the Canadian dollar denominated debenture (for the six months ended June 30, 2010, the US dollar weakened less significantly); offset by
    - An increase in interest expense of $1.8 million due to increased funding remitted to the DRC which exacts comparatively high bank charges on inward transfers; and
    - A $1.2 million increase in corporate overheads.
- Income tax expense of $1.3 million which was $1.1 million higher than the comparative six months due to deferred income tax charges recognised.

Cash Flows

Cash flow from (used in):	Six Months Ended June 30, 2011 $'000	Six Months Ended June 30, 2010 $'000
Operating activities	83,570	121,763
Investing activities	(128,746)	(93,030)
Financing activities	25,765	(8,455)

- For the six months ended June 30, 2011, cash inflows from operating activities were $83.6 million (six months ended June 30, 2010 – $121.8 million). The net decrease of $38.2 million was primarily due to:
    - The increase in net income, net of non cash items, of $58.2 million, as already discussed; offset by
    - A working capital outflow of $45.5 million (six months ended June 30, 2010 - $50.9 million inflow). The significant change being due to a decrease in accounts payable and accrued liabilities of $65.6 million (payment of creditors at June 30, 2010 was delayed due to an extended holiday in the DRC) and an increase in inventories of $22.1 million due to increased production, when compared to the previous year's first half year movement.
- Investing activities in the six months ended June 30, 2011, totalled $128.7 million which was an increase of $35.7 million on the six months ended June 30, 2010. The additions to mineral interests and property plant and equipment relate mainly to the additional expenditures incurred on the Phase III capital expansion and the KOV pre-strip. During the first six months ended June 30, 2011, proceeds from disposals of property, plant and equipment totalled $1.2 million (six months ended June 30, 2010 - $1.0 million).
- Financing activities in the six months ended June 30, 2011, totalled $25.8 million cash inflow (six months ended June 30, 2010 - $8.5 million outflow. The increase of $34.2 million was due to:
    - During the six months ended June 30, 2011, the Company sold and leased back a significant portion of KCC's mining machinery and equipment to its primary mine contractor. The net book value of the items sold amounted to $38.0 million and sale proceeds amounted to $34.4 million. The mining contractor contractually agreed to use the assets solely for mining on the Company's property. As such, the arrangement has been recognised as a finance lease transaction and the assets have been included in property, plant and equipment. Further, the loss on disposal of $3.6 million has been recognised as an impairment during the period.
    - Interest paid on the debenture notes was $8.7 million in the six months ended June 30, 2011 and $8.5 million in the six months ended June 30, 2010.

8. Balance Sheet Discussion

	June 30, 2011 $'000	December 31, 2010 $'000
Assets		
Cash and cash equivalents	23,609	41,645
Receivables	101,750	109,259
Other current assets	200,796	160,534
Mineral interests and property, plant and equipment, net	1,812,315	1,714,921
Other non-current assets	27,508	18,500
	2,165,978	**2,044,859**
Liabilities		
Current liabilities	248,930	240,820
Debentures payable	124,081	120,358
Other non-current liabilities	85,444	62,477
	458,455	**423,655**
Total equity	**1,707,523**	**1,621,204**

Cash and cash equivalents / liquidity

The cash and cash equivalents balance at June 30, 2011 decreased to $23.6 million from $41.6 million at December 31, 2010. The increase is as a result of the movements discussed in the previous cash flow section.

Receivables

As at June 30, 2011, the receivables balance of $101.8 million represents outstanding balances for copper, cobalt and copper concentrate sales invoiced. Copper, cobalt and copper concentrate sales are made under various sales agreements. Sales are made at a provisional price in the month of shipment with final pricing based on average prices at a specified period thereafter.

Other current assets

Other current assets increased to $200.8 million at June 30, 2011, from $160.5 million at December 31, 2010, primarily due to an increase in inventories of $27.0 million and an increase in prepayments of $13.3 million as a result of the ramp-up of production.

Mineral interests and property, plant and equipment, net

Mineral interests and property, plant and equipment, net at June 30, 2011 increased to $1,812.3 million from $1,714.9 million at December 31, 2010 primarily due to operational capital expenditures of $38.3 million, KOV pre-stripping of $34.3 million and project related capital expenditures of $67.6 million.

Other non-current assets

Other non-current assets increased to $27.5 million at June 30, 2011 from $18.5 million at December 31, 2010 due to an increase in long term prepayments and the deferred income tax asset recognized.

Current liabilities

Current liabilities at June 30, 2011 have increased to $248.9 million from $240.8 million at December 31, 2010. This is primarily due to an increase in customer prepayment of $20.9 million as a result of increased production and shipment of both finished metal and concentrate at the quarter end, an increase in the current portion of non-current liabilities of $10.9 million due to the sale and lease back of property, plant and equipment, offset by a decrease in trade payables, accruals and provisions of $23.7 million.

Debentures payable

The increase in debentures payable to $124.1 million at June 30, 2011 from $120.4 million at December 31, 2010 has occurred as a result of an unrealized foreign exchange loss of $3.0 million on the revaluation of the Canadian dollar denominated debentures into U.S. dollars, and the accretion of the debt of $0.8 million.

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

Other non-current liabilities

Other non-current liabilities have increased from $62.5 million as at December 31, 2010 to $85.4 million as at June 30, 2011. The other non-current liabilities consist of the Pas de Porte liability (an "entry premium" obligation payable to Gécamines for access to the Project), the finance lease liability arising on the sale and lease back of mining equipment and the decommissioning and environmental provisions.

Off-Balance Sheet Arrangements

As at June 30, 2011, the Company had no off-balance sheet arrangements.

9. Contractual Obligations and Commitments

The following table summarizes the Company's contractual and other obligations as at June 30, 2011.

Payments due by period	Total $'000	Less than 1 year $'000	1-3 years $'000	4-5 years $'000	After 5 years $'000
Capital expenditure commitments[1]	59,493	59,493	-	-	-
Gécamines lease[2]	25,200	1,800	5,400	3,600	14,400
	84,693	**61,293**	**5,400**	**3,600**	**14,400**

(1) The capital expenditure commitments relate to Phase III of the Project. Phase III commenced in 2009 and the Company completed all critical scopes of work relating to the refurbishment program associated with the previously disclosed Accelerated Development Plan during July 2011. This will increase production capacity to 150,000 tonnes per annum of copper and 8,000 tonnes per annum of cobalt. It is expected that Phase III will be funded by existing cash balances, cash generated by operations and existing credit facilities.

(2) Pursuant to the terms of the New Joint Venture Agreement (see item 16), all installations and infrastructures within the perimeter of the KCC concession area are being rented for an annual lease payment to Gécamines of $1.8 million.

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.

10. Liquidity and Capital Resources

As at June 30, 2011, the Company had cash and cash equivalents of $23.6 million (December 31, 2010 – $41.6 million) and working capital of $53.6 million (December 31, 2010 – $70.6 million). The Company does not have any committed or uncommitted credit facilities in place.

The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The budgeting process included stress testing of the assumptions underlying the budget. The cash on hand, existing credit facilities and budgeted funds from operations are projected to be sufficient to meet the Company's forecasted capital expenditures in connection with Phase III of the Project, interest payments on outstanding debentures and entry premium payments to Gécamines. Further detail on the Company's commitments can be found in item 9 of this Management's Discussion and Analysis.

During the three and six months ended June 30, 2011, the Company received $34.4 million in financing through the sale and lease back of property, plant and equipment. During the six months ended June 30, 2011, the Company repaid $8.7 million of debenture interest. The Company did not undertake any financing activities in the year ended December 31, 2010 other than the repayment of debenture interest of $8.5 million.

11. 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.

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.

Receivables from provisionally priced copper sales

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 (refer revenue recognition accounting policy note). This embedded derivative is recorded at fair value, with changes in fair value recorded in revenue and receivables. The fair value is estimated with reference to London Metal Exchange ("LME") forward prices for copper.

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.

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.

12. Outstanding Share Data

(a) AUTHORIZED

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

(b) ISSUED AT JUNE 30, 2011 AND AUGUST 12, 2010

1,000 common shares, par value $12.00 each
1,907,379,413 common shares, par value $0.10 each

(c) WARRANTS

As at June 30, 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.

(d) SHARE OPTIONS

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

	Number of share options	Weighted Exercise Price per Share [1]
Outstanding at January 1, 2010	4,450,686	$12.20
Granted during the year	6,613,226	$ 1.07
Outstanding at December 31, 2010	**11,063,912**	**$ 5.55**
Expired and cancelled during the period	(2,133,881)	($5.49)
Outstanding at June 30, 2011	**8,930,031**	**$5.56**

[1] Denominated in Canadian dollars.

During the six months ended June 30, 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 values assigned to these options were calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, risk free rate of return 0.78%, expected volatility (based on historical volatility of the Company's publicly traded shares) 97% and expected maturity of 3 years. The weighted average grant date fair value of each option was Canadian $0.65 and the total fair value assigned was Canadian $4.3 million. The options vest on August 10, 2013.

13. Related Party Transactions

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

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 plc is the Company's majority shareholder and is represented on the Board of Directors of the Company. In November 2007, Glencore plc's wholly owned subsidiary, Glencore International AG 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 International AG on market terms. The off-take agreements were entered into before Glencore plc was a related party of the Company.

Xstrata Queensland Ltd ("Xstrata") is a subsidiary of Xstrata plc and at June 30, 2011, Glencore plc owned 34.5% 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 plc. 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 plc. There is an agreement in place for employees to use charter flights operated by either company with associated costs invoiced. Additionally, during the six months ended June 30, 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.

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 June 30 2011 $'000	Three months ended June 30, 2010 $'000	Six months ended June 30 2011 $'000	Six months ended June 30, 2010 $'000
Purchases from related parties				
Gécamines	4,335	3,127	8,677	6,432
Glencore International AG	11,394	9,994	20,264	17,352
Mopani	2,678	9,298	6,621	13,473
Mutanda	4	-	57	-
Sales to related parties				
Mutanda	656	167	1,057	287
Mopani	18,548	2,291	27,835	11,081
Glencore International AG[1]	147,093	112,864	308,847	244,821
Compensation of key management personnel				
Short-term employee benefits	622	582	1,913	1,841
Termination benefits	1,823	-	1,897	-
Share-based compensation	175	27	399	55
Total compensation	**2,620**	**609**	**4,209**	**1,896**

	As at June 30, 2011 $'000	As at December 31, 2010 $'000
Amounts owed to related parties		
Gécamines	4,159	9,939
Glencore International AG[2]	75,510	50,711
Mopani[2]	21,379	20,738
Amounts owed by related parties		
Gécamines	-	3,035
Mopani	27,139	12,387
Mutanda	1,058	80
Glencore International AG	52,030	74,235

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

[2] Amount includes customer prepayments.

14. Financial Instruments

At June 30, 2011 and December 31, 2010, the Company's financial instruments consisted of cash and cash equivalents, receivables, accounts payable and accrued liabilities, debentures payable, warrants, other long-term liabilities and restricted stock units. With respect to all of these financial instruments with the exception of the publicly-traded debentures, the Company estimates that the fair value of these financial instruments approximates the carrying values at June 30, 2011 and December 31, 2010, respectively. The publicly-traded debentures were trading at a premium to their carrying value, as at June 30, 2011 (fair value - $129,722), 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.

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 June 30, 2011, and December 31, 2010:

Financial assets and liabilities

	Hierarchy level	**June 30, 2011 $'000**	**December 31, 2010 $'000**
Cash and cash equivalents	1	23,609	41,645
Loans and receivables			
Receivables from provisionally priced copper sales[1]	2	1,924	9,469
Other liabilities			
RSUs[2]	1	3	68
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.

15. Health, Safety, Community and Environment

In terms of the health and safety policy, there is explicit recognition of the importance of a safe and healthy work environment, created as a result of joint responsibility between the Company, its employees and contracting companies involved in work on the operating site. With a full complement of qualified health and safety resources, the Company is actively developing and implementing procedures, practices, training, and audit protocols across its operation which includes the implementation of an Occupational Health and Safety Management System ("OHSMS") which is based on OHSAS18001 and the establishment of an Emergency Response Team ("ERT") and a mines rescue team trained to international standards. Additionally, during 2010, Katanga completed the construction of an on-site hospital designed to provide medical and occupational health services to all employees, contractors and their dependents.

In December 2008, the Company's consultants (SRK Consulting) completed a draft Environmental & Social Impact Assessment ("ESIA") which is supported by a series of Environmental & Social Management Plans. This ESIA was carried out on a project description that envisaged a full build-out to increase the production to in excess of 300,000 tonnes per annum of copper production. Arrangements were subsequently made for SRK Consulting to review the draft ESIA based on the Accelerated Development Plan, the updated Technical Reports and in consideration of DRC legal requirements and to redraft an Environmental Impact Study ("EIS"). Public consultation was completed on April 15, 2010, and SRK Consulting finalised the EIS which was submitted to the DRC authorities for approval in January 2011. Through the Departments for the Protection of Mining Environment ("DPEM), the DRC Ministry of Mines approved the EIS in March 2011 and as a consequence, the Company has commenced all necessary steps required to comply with its environmental commitments referenced in the EIS and its Environmental Management Plans.

16. Joint Venture Agreement (JVA)

The amended JVA was signed with Gécamines on July 25, 2009, and all provisions remain consistent with those described in the Company's Annual Information Form dated March 31, 2011, which is available under the Company's profile on SEDAR at www.sedar.com.

17. Technical report

The Company filed an the ITR that covers the mineral reserves and mineral resources (as defined by National Instrument 43-101 of the Canadian Securities Regulators) and operations of the Company's operating subsidiary in the DRC, KCC.

18. Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure control and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the Company.

The CEO and CFO have concluded that, as at June 30, 2011, the Company's DC&P has been designed effectively to provide reasonable assurance that (a) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted recorded, processed, summarized and reported within the time periods specified in securities legislation. They have also concluded that the Company's ICFR have been designed effectively to provide reasonable assurance regarding the reliability of the preparation and presentation of the financial statements for external purposes and were effective as at June 30, 2011.

It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with IFRS. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company. However, any system of internal control over financial reporting has inherent limitations and can only provide reasonable assurance with respect to financial statement preparation and presentation.

The Company uses the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework. There were no changes to the Company's internal controls over financial reporting that occurred during the six months ended June 30, 2011 that materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

19. Risk Factors

The Company's risk exposures and their impact on the Company's consolidated financial position are summarized below:

Credit risk

The Company's credit risk is primarily attributable to short-term deposits and trade receivables from copper, cobalt and concentrate sales. The Company has a concentration of credit risk with all sales to two customers, which is closely monitored by management. The two customers are related parties of the Company (refer item 13). 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.

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 June 30, 2011 were to increase or decrease by 500 basis points, the decrease or increase in the interest cost for the six months would be approximately $1.3 million (year ended December 31, 2010 – $2.4 million).

(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:

As at	June 30, 2011 $	December 31, 2010 $
Assets		
South African rand	6,561	5,214
British pounds	400	185
Canadian dollars	632	440
Swiss franc	218	112
Euros	277	316
	8,088	6,267

If the U.S. dollar moved by plus or minus 5% at June 30, 2011, the unrealized foreign exchange gain or loss would move by approximately $0.4 million (year ended December 31, 2010 – $0.3 million).

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 30, 2013. A plus or minus 5% movement in the Canadian dollar exchange rate at June 30, 2011 would affect the consolidated statement of operations and comprehensive income by approximately $6.0 million (year ended December 31, 2010 – $6.1 million).

Commodity risk

The Company sells copper, cobalt and concentrates 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 June 30, 2011, the Company had 7,406 tonnes of copper (December 31, 2010 – 980) and 425 tonnes of cobalt sales (December 31, 2010 – 190) for which final commodity prices have yet to be determined. These were valued at June 30, 2011, at an average commodity price of $8,864 per tonne for copper (December 31, 2010 - $9,665) and $35,748 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 June 30, 2011 would result in a $3.9 million change to revenue and trade receivables (year ended December 31, 2010 - $0.8 million).

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.

The following table details the Company's expected remaining contractual maturities for its financial liabilities at June 30, 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.

As at June 30, 2011	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
Accounts payable and accrued liabilities	114,725	-	-	-	114,725
Debentures payable	9,023	8,925	17,898	134,855	170,701
Other non-current liabilities					
Pas de porte obligation	10,000	-	15,000	60,500	85,500
Finance lease liabilities	5,024	4,860	9,711	23,769	43,364
Restricted stock units	3	-	-	-	3
	138,775	13,785	42,609	219,124	414,293

As at December 31, 2010	**6 months or less**	**6 to 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
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					
Pas de porte obligation	-	10,000	15,000	60,500	85,500
Restricted stock units	68	-	-	-	68
	139,747	18,811	32,527	200,858	391,943

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.

Speculative nature of mining operations

Mining operations involve significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. Major expenditures are required to develop metallurgical processes and to construct mining and processing facilities at a particular site. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices which are highly cyclical and governmental regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, allowable production, importing and exporting of minerals and environmental protection. The precise effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. There is no assurance that any particular property will be brought into commercial production or will continue in commercial production once operations commence. Most of the above factors are beyond the Company's control.

Mining operations involve a high degree of risk. Such operations are subject to all the hazards and risks normally encountered in the development and production of copper and cobalt and other

base or precious metals, including unusual and unexpected geologic formations, water conditions, surface or underground conditions, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability, mechanical equipment performance problems, the unavailability of materials and equipment, accidents, labor force disruptions, force majeure factors, unanticipated transportation costs and weather conditions. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability. Any of these factors can materially and adversely affect, among other things, the development of any one or more of the Company's properties, production quantities and rates, costs and expenditures and production commencement dates.

Mineral resources and ore reserves

The mineral resources and ore reserves are presented in the "Technical Report" ("Technical Report" means the technical report dated March 31, 2011 titled "An Independent Technical Report on the Material Assets of Katanga Mining Limited, Katanga Province, Democratic Republic of Congo", which is available under the Company's profile on SEDAR at www.sedar.com) and in other publicly disclosed information. No assurances can be given that the anticipated tonnages and grades will be achieved or that the indicated levels of copper and cobalt recovery will be realized.

There is a degree of uncertainty to the calculation of mineral reserves and mineral resources and corresponding grades being mined or dedicated to future production. Until mineral reserves or mineral resources are actually mined and processed, the quantity of mineral resources and mineral reserves must be considered as estimates only. In addition, the quantity of mineral reserves and mineral resources may vary depending on, among other things, metal prices. Any material change in the quantity of mineral reserves, mineral resources, grade or stripping ratio may affect the economic viability of the properties. In addition, there can be no assurance that copper or cobalt recoveries or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuation in copper, cobalt and other base metals prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. In particular, no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated levels of copper and cobalt recovery will be realized. Any material reductions in estimates of mineral reserves and mineral resources or estimates of the Company's ability to extract these mineral reserves could have a material adverse effect on the Company's results of operations and financial condition.

Political stability

The JV Agreement (referred to in item 16) may be subject to the effects of political changes, war, civil conflict, changes in government policy, lack of law enforcement, labour unrest and the creation of new laws. These changes (which may include new or modified taxes or other governmental levies as well as other legislation) may impact the profitability and viability of the Company's properties. The DRC is an impoverished country with physical and institutional infrastructure that is in a debilitated condition. It is in transition from a largely state-controlled economy to one based on free market principles and from a non-democratic political system with a centralized ethnic power base to a political system based on more democratic principles. There

can be no assurance that these changes will be effected or that the achievement of these objectives will not have material adverse consequences for the Company and its operations. The effect of unrest and instability on political, social or economic conditions in the DRC could result in the impairment of the development and mining operations at the Company's properties. Any such changes are beyond the Company's control and may adversely affect its business.

Licenses, permits and governmental regulations

The Company's leased properties are subject to various laws governing prospecting, mining, development, production, taxes, labor standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although activities on the properties are currently carried out in accordance with all applicable rules and regulations of the DRC, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including, orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws and regulations governing operations or more stringent implementation thereof could have a substantial adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Foreign operations

Substantially all of the Company's operations are in the DRC and as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. These risks and uncertainties include, but are not limited to: (i) currency exchange rates; (ii) high rates of inflation; (iii) labour unrest; (iv) renegotiation or nullification of existing concessions, licenses, permits and contracts; (v) changes in taxation policies; (vi) restrictions on foreign exchange; (vii) changing political conditions; (viii) currency controls; and (ix) governmental regulations that require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in the DRC may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements.
The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations and profitability.

Logistics risks

The Company depends primarily on road and rail links throughout the DRC and neighboring countries to transport raw materials, supplies and products over long distances between its facilities and African ports. In some cases these transport services may potentially constitute a logistical constraint to the Company’s planned increased production rates, specifically with regards to the import of bulk consumables or the export of product. The Front End Engineering and Early Works Project Study recently completed by SNC-Lavalin (South Africa) includes a detailed logistics study which will provide guidance on how to mitigate logistical risks at the increased production rates. Logistical risks could have a material adverse effect on the Company’s business, operating results and financial position.

Power supply

The Company’s operations depend upon the reliable and continuous delivery of sufficient quantities of power to its mines and processing facilities. While the Company currently has power supply to certain of its existing facilities, the Company’s long-term operations, when taken together, would, if all fully operational, have a total power requirement in excess of power currently available in the Katanga Province for those operations, taking account of existing usage and commitments. Failure to secure sufficient power in the future could have a material adverse effect on the Company’s business, operating results and financial position. In this regard, the Company has recently completed a $14 million refurbishment of a section of the DC link that distributes power from the Inga hydro-electricity facilities to the Katanga Province. Completion of this refurbishment project in 2010 has guaranteed a minimum 160MW of power to the Company which is more than sufficient to support operational requirements in 2011 and 2012. The Company is also in an advanced stage of negotiation with SNEL, the state power utility provider, and engineering contractors to conduct further refurbishment of power generating, transmission and distribution systems in the DRC that would allow for 450MW of power to be made available to the Company and its partners in this refurbishment project.

Labor and employment matters

Relations with employees may be impacted by changes in the scheme of labour relations, which may be introduced by the relevant governmental authorities. Adverse changes in such legislation may materially adversely affect the Company's business, result of operations and financial condition. In addition, labour disruption or work stoppages by the Company's employees or its contractors could materially adversely affect its business and operations.

Dependence on relations with third parties

The Company is heavily dependent on its ability to secure reliable supplies of raw materials and provision of certain services from third-party suppliers in order to carry out its operations. While the Company has certain arrangements currently in place for some of these materials and services, there can be no guarantee that these arrangements will be sufficient for the Company's future needs or that such supplies or provision of services will not be interrupted or cease altogether. Some of the materials or services required for the Company's operations are currently only available on commercially reasonable terms from one or a limited number of suppliers or providers. These operations may be interrupted or otherwise adversely affected by: (i) lack of supply or delays in the supply, of these materials or services by third party suppliers; (ii) any change to the terms on which these materials or services are made available by third party suppliers; and (iii) the failure of third-party suppliers to provide materials or services that meet the Company's quality requirements. If the Company is forced to change a supplier of such materials or services, there is no guarantee that this would not result in the Company experiencing

additional costs, interruptions to supply continuity or some other adverse effect on its business. There is also no guarantee that the Company will be able to find adequate replacement materials or services on a timely basis or at all.

Potential dependence on key contracts and business arrangements

A large portion of the Company's revenue may be derived from sales of its finished or part-finished products pursuant to a relatively small number of key contracts or business arrangements. In particular, the Company has entered into exclusive off-take arrangements with Glencore. Failure or material delay by the counterparties to these contracts or arrangements to perform their obligations thereunder, or breach of these contracts or arrangements by such counterparties, could have a material adverse effect on the Company's business, operating results and financial position.

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, civil unrest and political instability, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in development or mining, monetary losses and possible legal liability.

The Company does not intend to obtain political risk insurance which will guarantee investments and loans by the Company to companies in the DRC against the risks of transfer restrictions, expropriation, breach of contract, war and civil disturbance. The Company will maintain insurance to protect against certain other risks in such amounts as it considers reasonable. However, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Other risks

The Company is exposed to other risks during its course of business and these are discussed in detail in the Company's Annual Information Form which are available on SEDAR at www.sedar.com and should be reviewed in conjunction with this document.

20. Non-IFRS Measures

The Company has included a non-IFRS performance measure, C1 cash costs, net of by-product credits, per pound of copper. The Company reports C1 cash costs on a production basis. In the copper mining industry, this is a common performance measure but does not have any standardized meaning. The Company believes that, in addition to conventional measures

prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. C1 cash costs inclusive of by-product credits are calculated by deducting by-product cobalt sales revenues from cash operating costs.

21. Forward Looking Statements

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

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

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, or otherwise, except in accordance with applicable securities laws.