

KATANGA MINING LIMITED

CONSOLIDATED
FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

KATANGA MINING LIMITED

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KATANGA MINING LIMITED

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Katanga Mining Limited and its subsidiaries ("Katanga" or the "Company") were prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 3 to the consolidated financial statements.

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

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

The Company also has an internal audit function that evaluates and formally reports to management and the Audit Committee on the adequacy and effectiveness of internal controls specified in the internal audit plan. The independent auditor, who is appointed by the shareholders, examines and reports on the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

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

Signed by

Johnny Blizzard
Chief Executive Officer
February 8, 2017

Jacques Lubbe
Chief Financial Officer
February 8, 2017

Independent Auditor's Report

To the Shareholders of Katanga Mining Limited

We have audited the accompanying consolidated financial statements of Katanga Mining Limited, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Katanga Mining Limited as at December 31, 2016 and, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and, 2015 in accordance with International Financial Reporting Standards.

Deloitte & Touche

Leon Taljaard
Johannesburg
February 8, 2017

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Note	December 31, 2016 \$	December 31, 2015 \$
ASSETS			
Current			
Cash and cash equivalents	6	1,518	37,740
Receivables	7	236,634	201,900
Inventories	8	146,066	126,177
Prepayments and other current assets	9	113,107	274,704
		497,325	640,521
Non-current			
Mineral interests	10	1,869,706	1,834,128
Property, plant and equipment	11	2,404,302	2,294,618
Non-current inventories	8	365,271	494,340
Other non-current assets		226,241	108,897
Deferred income tax assets	28	403,212	406,180
		5,268,732	5,138,164
Total assets		5,766,057	5,778,685
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	249,358	303,717
Provisions	13	7,220	14,936
Customer prepayments – related parties	19	1,592,761	1,208,243
Current portion of other non-current liabilities	15	-	1,409
		1,849,339	1,528,305
Non-current			
Amended loan facilities - related parties	14	3,363,267	3,057,760
Decommissioning and environmental provisions	16	15,134	12,445
		3,378,401	3,070,205
Total liabilities		5,227,740	4,598,510
SHAREHOLDERS' EQUITY			
Share capital	17	190,750	190,750
Reserves		2,540,024	2,540,635
Accumulated deficit		(1,578,680)	(1,150,997)
Equity attributable to shareholders of the Company		1,152,094	1,580,388
Non-controlling interests	18	(613,777)	(400,213)
Total equity		538,317	1,180,175
Total liabilities and equity		5,766,057	5,778,685

Signed by:
Hugh Stoyell (Non-executive Chairman)

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

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in thousands of U.S. dollars, except outstanding common shares and per share amounts)

	Note	Year ended December 31,	
		2016 \$	2015 \$
Sales	19	(30,127)	669,701
Cost of sales	20	-	(1,126,290)
Gross loss		(30,127)	(456,589)
Other (expense) income			
Operating expenses	21	(246,794)	-
General and administrative expense		(2,284)	(2,715)
Release of SX/EW provision	13	-	17,422
Restructuring cost recovery (expenses)	22	600	(36,304)
Facilities interest	14	(305,504)	(239,807)
Customer prepayments interest	19	(43,526)	(19,686)
Interest income		7,001	7,233
Interest expense		(12,935)	(16,227)
Foreign exchange gain		1,338	5,888
Loss before income taxes		(632,231)	(740,785)
Income tax (expense) recovery	28	(9,017)	111,269
Net loss and comprehensive loss	23	(641,248)	(629,516)
Attributable to			
Non-controlling interests		(213,565)	(205,452)
Shareholders of the Company		(427,683)	(424,064)
Basic and diluted loss per common share	17	(\$0.22)	(\$0.22)
Weighted average number of common shares outstanding		1,907,380,413	1,907,380,413

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars)

Years ended December 31, 2016 and 2015

	Number of common shares	Share capital	Reserves		Accumulated deficit	Equity attributable to shareholders of the Company	Non- controlling interests	Total
			Contributed surplus	Share option reserve				
		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2015	1,907,380,413	190,750	2,498,068	43,748	(726,933)	2,005,633	(194,760)	1,810,873
Options forfeited and expired	-	-	-	(1,181)	-	(1,181)	-	(1,181)
Comprehensive loss	-	-	-	-	(424,064)	(424,064)	(205,452)	(629,516)
Balance at December 31, 2015	1,907,380,413	190,750	2,498,068	42,567	(1,150,997)	1,580,388	(400,213)	1,180,175
Options forfeited and expired	-	-	-	(611)	-	(611)	-	(611)
Comprehensive loss	-	-	-	-	(427,683)	(427,683)	(213,565)	(641,248)
Balance at December 31, 2016	1,907,380,413	190,750	2,498,068	41,956	(1,578,680)	1,152,094	(613,777)	538,317

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

KATANGA MINING LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Years ended December 31,	
	2016	2015
	\$	\$
Operating activities		
Net loss and comprehensive loss for the year	(641,248)	(629,516)
Adjusted for non-cash items:		
Depreciation and amortization	28,126	186,601
Restructuring cost recovery (expenses)	600	(36,304)
Release of SX/EW provision	-	(17,422)
Share-based compensation recovery	(611)	(1,181)
Net finance cost	5,934	8,994
Income tax expense (recovery)	9,017	(111,269)
Facilities and customer prepayments interest	349,030	259,493
Unrealized foreign exchange loss (gain)	675	(89)
Decommissioning and environmental provision accretion	1,599	2,093
Expense on issue of capital spares to production	19,311	18,792
Profit on disposal of property, plant and equipment	(550)	(468)
Interest received	7,001	7,233
Interest paid	(12,935)	(16,227)
Income taxes paid	(3,950)	(7,654)
Changes in working capital (excluding non-cash movements):		
Increase in receivables	(34,734)	(13,875)
Decrease (increase) in current prepayments and other current and non-current assets	34,934	(129,860)
Decrease (increase) in inventories	115,031	(91,614)
Decrease in accounts payable and accrued liabilities	(30,644)	(29,900)
Increase in provisions	(7,716)	4,454
Increase (decrease) in operating customer prepayments	50	(2,365)
Cash flows used in operating activities	(161,080)	(600,084)
Investing activities		
Additions to mineral interests and property, plant and equipment	(222,513)	(542,166)
Proceeds on disposal of property, plant and equipment	9,416	511
Cash flows used in investing activities	(213,097)	(541,655)
Financing activities		
Proceeds from customer prepayments – related parties	337,975	1,188,207
Proceeds from amended loan facilities – related parties	-	1,800
Cash flows from financing activities	337,975	1,190,007
(Decrease) increase in cash and cash equivalents	(36,202)	48,268
Cash and cash equivalents, beginning of year	37,740	(10,519)
Effect of exchange rate changes on cash held in foreign currencies	(20)	(9)
Cash and cash equivalents, end of year (refer to note 6)	1,518	37,740

The notes on pages 9 to 49 are an integral part of these consolidated financial statements.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

1. DESCRIPTION OF BUSINESS

Katanga Mining Limited (“Katanga” or the “Company”) is a limited company whose common shares are listed on the Toronto Stock Exchange under the symbol “KAT”. The Company’s registered office address is Suite 300, 204 Black Street, Whitehorse, Yukon, Canada Y1A 2M9. Katanga’s ultimate parent company is Glencore plc (“Glencore”) which owns 75.3% of Katanga’s shares through its wholly-owned subsidiary Glencore International AG.

Katanga, through its 75% owned subsidiary Kamoto Copper Company SA (“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, development and operation of the Kamoto / Mashamba East mining complex (including “KTO Underground Mine” or “KTO”, “KTE Underground Mine” and “Etang South Underground Mine”), the Kamoto Oliveira Virgule (“KOV Open Pit” or “KOV”) copper and cobalt mine, the T17 Mine consisting of “T17 Open Pit” and “T17 Underground Mine”, various oxide open pit resources, the Kamoto Concentrator (“KTC”) and the Luilu Metallurgical Plant (“Luilu”), (collectively, the “Project”), in the DRC. Operations at KTO, KTE, Etang South, T17, KTC and Luilu have been suspended pending the completion of the Whole Ore Leach Project as described further herein. The Whole Ore Leach Plant is expected to commence commissioning in the second half of 2017.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements are audited and have been prepared using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements of the Company for the years ended December 31, 2016, and 2015 have been prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on February 8, 2017. Shortly thereafter, the consolidated financial statements are made available to shareholders and others through filing on SEDAR.

Basis of presentation

The consolidated financial statements are prepared on a going concern basis (refer to note 5 liquidity risk), under the historical cost convention except for certain financial instruments, which are measured at fair value in U.S. dollars, the Company’s functional currency. All financial information is presented in U.S. dollars rounded to the nearest thousand dollar, except as otherwise stated. The impact of seasonality or cyclicity on operations is not regarded as significant to the consolidated financial statements.

Summary of accounting policies

These consolidated financial statements are prepared using the same accounting policies and methods of computation as applied in the 2015 annual audited consolidated financial statements. Accordingly, the consolidated financial statements should be read in conjunction with the 2015 annual audited consolidated financial statements.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

2. BASIS OF PREPARATION (continued)

The following new and revised standards were adopted effective for annual accounting periods beginning on or after January 1, 2016:

- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations;
- IAS 16 – Property, Plant and Equipment;
- IAS 19 – Employee Benefits;
- IAS 34 – Interim Financial Reporting; and
- IAS 38 – Intangible Assets.

The adoption of these new and revised standards and interpretations did not have a significant impact on Katanga's financial statements.

New standards not yet effective

At the date of authorisation of these financial statements, the following new standards, which are applicable to the Company, were issued but are not yet effective:

- IFRS 15 – Revenue from Contracts with Customers – effective for year ends beginning on or after 1 January 2018. IFRS 15 applies to revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS. The standard outlines the principles an entity must apply to measure and recognise revenue and the related cash flows.
- IFRS 9 – Financial Instruments – effective for year ends beginning on or after 1 January 2018. IFRS 9 modifies the classification and measurement of certain classes of financial assets and liabilities. The most significant change is to rationalize from four to two primary categories of financial assets.
- IFRS 16 Leases: Effective for year ends beginning on or after 1 January 2019. IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Critical accounting policies, key judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year.

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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairments

Property, plant and equipment and mineral interests are reviewed for impairment if there is an indication that the carrying amount may not be recoverable. The Company conducts an internal review of the assets at least annually, which is used as a source of information to assess for indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, then an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use and fair value less cost of disposal ("FVLCD"). Refer to notes 10 and 11.

The cost levels incorporated in the cash flow forecasts for FVLCD purposes are based on the anticipated updated life-of-mine plan or long-term production plans. This differs from value in use which requires future cash flows to be estimated for the asset in its current condition and does not include future cash flows associated with improving or enhancing the asset's performance. Anticipated enhancements may include the FVLCD calculations and therefore generally result in a higher value.

Where the recoverable amount of a cash-generating unit is dependent on the life of its associated orebody, expected future cash flows reflect the current life of mine or long-term production plans, which are based on detailed research, analysis and bespoke modelling to optimise the level of return from investment, output and sequence of extraction. The mine plan takes account of all relevant characteristics of the orebody, including waste-to-ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The life of mine plan and/or long-term production plans are therefore the basis for forecasting production output and production costs in each future year.

The price forecasts used for ore reserve estimations are generally consistent with the assumptions that a market participant would be expected to use to assess the value of the mines operations.

The discount rate applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. The Company's weighted

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

average cost of capital is used as a starting point for determining the discount rates, with appropriate adjustments to the risk profile of the operation.

On September 11, 2015, the Company suspended the processing of copper and cobalt which suspension is expected to last up to 18 months. This, combined with a decline in the copper price, resulted in an impairment assessment being performed utilizing a fair value model. Based on this assessment no impairment was required. The copper and cobalt pricing assumptions used in the fair value model are within market forecasts and anticipate movement up from current spot prices to a long-term price of \$6,500/tonne and \$26,500/tonne, respectively.

The valuation assessment is most sensitive to movements in the long-term commodity price estimates for copper and cobalt and changes in future production volumes and operating costs.

The valuation models use the most recent reserve and resource estimates, planned benefits from revisions to the life of mine plan, WOL related processing parameters and relevant cost assumptions in line with current cost reduction initiatives and market based commodity pricing, discounted using an operation specific discount rate of 10.70%. The valuation remains sensitive to pricing and other key assumptions as detailed above. Deterioration in the key assumptions may result in significant impairment.

Income taxes

The Company operates in the DRC, Switzerland 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 requires management to exercise judgment and make certain assumptions about the future performance of the Company. This 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 will probably 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. Refer to note 28

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

Mineral interests and certain 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 the statement of (loss) income, can fluctuate from initial estimates. This could generally result when there are significant changes in any of the factors or assumptions used in estimating ore reserves and mineral resources, notably changes in the geology of the ore reserves and mineral resources and assumptions used in determining the economic feasibility therein. Such changes in ore reserves and mineral resources 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 ore reserves and measured and indicated mineral resources. Estimates of proven and probable ore reserves and mineral resources are prepared by experts in extraction, geology and ore reserve and mineral resource determination.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In calculating ore reserves and mineral resources, estimates and assumptions are required about a range of geological, technical, and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Company's rights to exploit the mineral resource imposed over the producing life of the ore reserves may also significantly impact estimates. Assessments of UOP rates against the estimated recoverable ore reserves and mineral resources and the operating and development plan are performed regularly by management. Refer to notes 10 and 11.

Valuation of non-current inventories

The Company carries its non-current inventories at the lower of production cost and net realizable value ("NRV"). If the carrying value exceeds the net realizable amount, a write down is required. The write down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

The Company reviews the NRV periodically. In particular for the NRV of non-current inventories the Company makes significant estimates related to the future production and sales volumes, metal prices, reserve and resource quantities, future and operating capital costs. These estimates are subject to various risks and uncertainties and may have an effect on the NRV estimate and the carrying value of the non-current inventories.

Provisional pricing derivative

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 to revenue recognition accounting policy note). This receivable 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 offset by the contractual discount to the LME price. Refer to notes 5, 7 and 19.

Decommissioning and environmental provisions

The Company's operations are subject to environmental regulations in the DRC and environmental reporting requirements in Canada. 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.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The decommissioning and environmental provisions are measured by discounting the expected cash flows at a risk-adjusted discount rate of 10.70% (2015: 11.25%). The actual rate will depend on a number of factors, including the time it will take to rehabilitate the property and the location of the property. Refer to note 16.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. 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. Refer to note 13.

Foreign currency translation

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

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

Revenue recognition

Revenues are recognized when title, risk and rewards pass to the customer, typically when goods have been delivered to a contractually agreed location. Revenue excludes any applicable sales taxes and is recognized at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Company and the revenues and costs can be reliably measured. Sales agreements are generally recognized at a provisional price with final prices being determined at a specified future date based on market prices. Changes between the price recorded upon initial recognition of revenue and the final price due to fluctuations in commodity prices result in the existence of an embedded derivative. The embedded derivative is recorded at fair value, with changes in fair value recorded in revenue and receivables. Refer to note 19.

Income taxes

Income tax expense represents the sum of tax currently payable and changes to deferred tax assets and liabilities as a result of operations during the year.

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income taxes

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

Deferred income taxes

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

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

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

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

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

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

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

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

KATANGA MINING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings (loss) per common share

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

Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through the statement of loss. At December 31, 2016, the Company's provisional pricing derivative has been designated FVTPL. Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method. The Company's other receivables are classified as loans-and-receivables. The Company has not designated any financial assets as held-to-maturity. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered significant or prolonged. At December 31, 2016, the Company has not classified any financial assets as available-for-sale.

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

Financial liabilities

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

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

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of income. At December 31, 2016, the Company has not classified any financial liabilities as FVTPL.

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

Available-for-sale

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings and borrowing costs

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

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

Inventories

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

Inventory of supplies is valued at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each supply to its present location and condition. Replacement cost is used as the best available measure of net realizable value. Obsolete, redundant, and slow moving consumables are identified and written down to net realizable values.

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

Property, plant and equipment

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

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

Land	Not applicable
Plant and equipment	1 to 20 years or UOP
Buildings	20 years
Leasehold improvements	Term of underlying lease
Finance lease assets	Shorter of the lease term and the estimated useful lives of the assets

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Items of inventory with a useful life of more than one year are included in the carrying amount of property, plant and equipment.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Overburden removal costs

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

Mineral interests

All direct costs relating to the mineral interests that meet the generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the recovered minerals to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production. Exploration costs, net of incidental revenues, are charged to the consolidated statement of loss in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

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

Upon establishment of commercial production, carrying values of mineral interests are amortized over the estimated life of the mines, using the UOP method, based upon the current estimated recoverable mineral reserves and mineral resources. In applying the UOP method, amortization is calculated using the quantity of material extracted in the period as a percentage of the total quantity of material to be extracted in current and future periods based on mineral reserves and mineral resources. These mineral resources are included in depreciation calculations where there is a high degree of confidence in their economic extraction.

Impairment of non-financial assets

Impairment charges and reversals are assessed at the level of cash-generating units which, in accordance with IAS 36 Impairment of Assets, are identified as the smallest identifiable asset or group of assets that generate cash inflows, which are largely independent of the cash inflows from other assets. The existence of an active market for intermediate products is also monitored and separate cash-generating units are identified even if the majority of those products are further processed internally and therefore the cash flows are not independent.

When the recoverable of the cash-generating unit is measured by reference to FVLCD this amount is further classified in accordance with the fair value hierarchy for observable market data that is consistent with the unit of account for the cash-generating unit being tested. The Company

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

considers that the best evidence of FVLCD is the value obtained from an active market or binding sale agreement and, in this case, the recoverable amount is classified in the fair value hierarchy as level 1. When FVLCD is based on quoted prices for equity instruments but adjusted to reflect factors such as a lack of liquidity in the market, the recoverable amount is classified as level 2 in the fair value hierarchy.

When unobservable inputs are material to the measurement of the recoverable amount, FVLCD is based on the best information available to reflect the amount the Company could receive for the cash-generating unit in an orderly transaction between market participants at the measurement date. This is often calculated using the discounted cash flow technique and is classified as level 3 in the fair value hierarchy.

Where the recoverable amount is assessed using FVLCD based on discounted cash flow techniques, the resulting estimates are based on detailed "life-of-mine" or long-term production plans.

The cash flow forecasts for FVLCD purposes are based on management's best estimates of expected future revenues and costs, including the future costs of production, capital expenditure, restoration and environmental costs. For the purposes of determining FVLCD from a market participant's perspective, the cash flows incorporate management's price and cost assumptions over the life-of-mine or long-term production plan. The cash flow forecasts may include net cash flows expected to be realised from extraction, processing and sale of material that does not currently qualify for inclusion in ore reserves. Such non-reserve material is only included when there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralisation that are contiguous with existing ore reserves. The additional evaluation required to achieve reserve status for such material has not yet been done because this would involve incurring evaluation costs earlier than is required for the efficient planning and operation of the mine.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease contracts and other significant contracts are assessed to determine whether, in substance, they are or contain a lease. This includes an assessment of whether the arrangement is dependent on the use of a specific asset and the right to use the asset is conveyed through the contract.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the consolidated statement of loss,

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's policy on borrowing costs (refer above). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

Decommissioning and environmental provisions

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

Provisions

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

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

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

Share-based compensation

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

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

Cash-settled transactions

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statement of loss.

Equity-settled transactions

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

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied. Share options granted to employees are treated as forfeited when such employees cease employment before the end of the vesting period. Such forfeitures result in a reversal of the expense previously recognized, with a corresponding adjustment to the share option reserve.

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

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4. CAPITAL DISCLOSURES

The Company includes as its capital its common shares, reserves and accumulated deficit and has no externally imposed capital requirements. The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued production and development.

The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations (refer to note 5 Liquidity risk and note 14 Amended Loan Facilities). In order to achieve these objectives, the Company holds its unexpended cash with financial institutions with a Standard and Poor's rating of BBB or greater in line with the Company's treasury policy. The Company is currently in compliance with all capital requirements including requirements relating to its non-current debt.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

As at	December 31, 2016 \$	December 31, 2015 \$
Financial assets		
Cash and cash equivalents	1,518	37,740
Provisional pricing derivative ⁽¹⁾	5	(7)
Other receivables ⁽²⁾	236,629	201,907
Total financial assets	238,152	239,640
Financial liabilities		
Accounts payable and accrued liabilities ⁽³⁾	249,358	303,717
Amended Loan Facilities – related parties (refer to note 14) ⁽³⁾	3,363,267	3,057,760
Customer prepayments (refer to note 19) ⁽³⁾	1,592,761	1,208,243
Current portion of other non-current liabilities ⁽³⁾	-	1,409
Total financial liabilities	5,205,386	4,571,129

(1) Provisional pricing derivative embedded within receivables has been categorized as fair value through profit and loss ("FVTPL") in terms of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

(2) Other receivables have been categorized as loans and receivables in terms of IAS 39.

(3) All financial liabilities have been categorized as other financial liabilities at amortized cost in terms of IAS 39.

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5. FINANCIAL INSTRUMENTS (continued)

Fair value

The Company estimates that the fair value of these financial instruments approximates their carrying values at December 31, 2016 and December 31, 2015, respectively.

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 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 December 31, 2016, and December 31, 2015:

	Hierarchy level	December 31, 2016 \$	December 31, 2015 \$
Cash and cash equivalents	1	1,518	37,740
Provisional pricing derivative ⁽¹⁾	2	5	(7)

(1) Open provisionally priced sales which retain an exposure to future changes in commodity prices are marked-to-market based on the London Metals Exchange (“LME”) forward prices offset by the contractual discount to the LME price. As such, these embedded derivatives included in receivables are classified within Level 2 of the fair value hierarchy.

There have been no transfers between Level 1 and 2 in the respective reporting periods. Fair values have been determined by reference to quoted prices at the reporting dates.

Financial risk management objectives and policies

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

Credit risk

The Company’s credit risk is primarily attributable to other receivables mainly consisting of value added tax input credits receivable, trade receivables from copper and cobalt sales and short-term deposits. The value added tax input credits are receivable from the tax authorities in the countries in which the Company operates and the collection thereof is closely monitored by management. The Company has a concentration of credit risk with all sales to one customer, which is closely monitored by management. The customer is a related party of the Company (refer to note 24). 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 BBB or greater in line with the Company’s treasury policy.

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5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Commodity price risk

The Company sells copper and cobalt at prevailing market prices. Under the revenue contracts, final pricing adjustments are made after delivery to the customer. 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 period or the prior period. There is currently no intention to hedge future sales.

As at December 31, 2016, the Company had 25 tonnes of copper (December 31, 2015 – no copper) and no cobalt (December 31, 2015 – 25 tonnes) for which final commodity prices have yet to be determined. These were valued at December 31, 2016, at a forward commodity price net of contractual discounts of \$1,568 per tonne for copper wire (December 31, 2015 – no copper) (amounts in whole numbers). A 5% increase or decrease in the forward copper price as at December 31, 2016 would result in a \$2 change to revenue and trade receivables (as at December 31, 2015 – no copper).

Liquidity risk

It is anticipated that the Company's existing cash balances—existing credit facilities and advances from Glencore (refer to note 14) will be sufficient to fund the operations, the Whole Ore Leach Project, other capital expenditure and the Power Project (refer to note 26), for the next twelve months. Glencore has indicated it will provide or procure the additional funding required while the Company continues the planned investment in ongoing processing plant upgrades, the waste stripping at the KOV and Mashamba East Open Pits and any other operating activities during the suspension period. During the year ended December 31, 2014, the existing Loan Facilities and customer prepayments received up to November 26, 2014 were rolled into new long-term facilities with repayment terms extended to January 1, 2021 (refer to note 14).

The following table details the Company's expected remaining contractual maturities for its financial liabilities as at December 31, 2016. 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 December 31, 2016	6 months or less \$	6 to 12 months \$	1 to 2 years \$	Over 2 years \$	Total \$
Accounts payable and accrued liabilities	115,654	133,704	-	-	249,358
Customer prepayments (ref. to note 19)	1,592,761	-	-	-	1,592,761
Amended loan facilities – related parties	-	-	-	3,363,267	3,363,267
	1,708,415	133,704	-	3,363,267	5,205,386

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5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As at December 31, 2015	6 months or less \$	6 to 12 months \$	1 to 2 years \$	Over 2 years \$	Total \$
Accounts payable and accrued liabilities	271,788	31,929	-	-	303,717
Customer prepayments (ref. to note 19)	1,208,243	-	-	-	1,208,243
Amended loan facilities – related parties	-	-	-	3,057,760	3,057,760
Current portion of finance lease liability	705	705	-	-	1410
	1,480,736	32,634	-	3,057,760	4,571,130

Market risk

(a) Interest rate risk

The Company had cash balances and bank overdrafts, the Amended Loan Facilities and financing received through customer prepayments (refer to note 19) as at December 31, 2016, and December 31, 2015. The bank overdrafts had fixed interest rates of between 7% and 10%. The Amended Loan Facilities have a fixed interest rate of 10% and the financing received through customer prepayments bears interest at an interest rate of 3-month LIBOR plus 3% fixed on the date of receipt. The Company held no floating rate debt as at December 31, 2016, or December 31, 2015.

(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, Congolese franc and Euros (for future expenditures which will be denominated in these currencies). The Company has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

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5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

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

As at	Assets		Liabilities	
	December 31, 2016 \$	December 31, 2015 \$	December 31, 2016 \$	December 31, 2015 \$
South African rand	26,695	212	(769)	-
British pounds	30	36	-	-
Canadian dollars	18	30	-	-
Swiss franc	23	24	-	-
Congolese franc	42	26,041	(1,081)	(1,918)
Euros	1,479	255	-	-
	28,287	26,598	(1,850)	(1,918)

A 5% increase or decrease in the U.S. dollar at December 31, 2016, with respect to all of the above currencies, would result in a movement of the unrealized foreign exchange gain or loss for the period of approximately \$1,434 (year ended December 31, 2015 – \$1,237).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2016, and December 31, 2015, consisted only of unrestricted cash.

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7. RECEIVABLES

	As at December 31, 2016 \$	As at December 31, 2015 \$
Trade receivable from related parties (refer to note 24)	29,656	23,730
Trade receivable from third parties	18,643	9,897
Other receivables from third parties ⁽¹⁾	188,335	168,273
Total receivables	236,634	201,900

(1) As at December 31, 2016, VAT input credits receivable from the DRC are included within other receivables from third parties and amounted to \$188,420 (December 31, 2015 - \$168,225).

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

	As at December 31, 2016 \$	As at December 31, 2015 \$
Less than 1 month	1,660	23,813
1 to 3 months	21,242	28,602
3 to 6 months	3,824	23,233
Over 6 months	209,907	126,252
	236,634	201,900

As at December 31, 2016, 2% (December 31, 2015 – 12%) of receivables were aged from 3 to 6 months, and 89% (December 31, 2015 – 63%) were aged over 6 months. Such receivables, consisting principally of value added tax input credits receivable, although contractually past their due dates, are not considered impaired as there has not been a significant change in credit quality of the relevant counterparty, and the amounts are still considered recoverable.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2016. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The Company does not have trade receivables that are past due or any allowance for doubtful debts.

The carrying value of receivables approximates fair value.

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8. INVENTORIES

	As at December 31, 2016 \$	As at December 31, 2015 \$
Raw materials and consumables – gross ⁽¹⁾	162,202	170,199
Work in progress – current	252	-
Consumable inventory provision ⁽²⁾	(16,388)	(30,572)
Allowance for obsolescence	-	(13,450)
Total inventories – current	146,066	126,177
Consumables	173,685	289,304
Allowance for obsolescence	(13,450)	
Ore in stockpiles – non-current	179,392	179,392
Work in progress – non-current	25,644	25,644
Total inventories – non-current	365,271	494,340
Total inventories	511,337	620,517

(1) Included in operating expenses during the twelve months ended December 31, 2016 were consumable inventory write offs of \$41,278 (year ended December, 2015 – nil included in cost of sales).

(2) As at December 31, 2016, consumables inventory was valued net of a provision for net realizable value of \$16,388 (as at December 31, 2015 – \$30,572).

The amount of inventories recognized as an expense during the year ended December 31, 2016, was nil (year ended December 31, 2015 - \$677,487) and is included in cost of sales for 2015 in the consolidated statement of loss.

During the year ended December 31, 2016, the Company did not recognize any expense on the write-down of product inventory to net realizable value (refer to note 21 and 20) (year ended December 31, 2015 – \$85,890). This has been recorded in cost of sales for 2015 in the consolidated statement of loss.

On September 11, 2015, the Company announced the suspension of copper and cobalt production, in order to complete the Whole Ore Leach Project construction. The Whole Ore Leach Plant is expected to commence commissioning in the second half of 2017. As at December 31, 2015 as a result of this suspension, it was determined that \$289,304 of consumables, \$179,392 of ore in stockpiles and \$25,644 of work in progress would be used beyond 12 months and has therefore been recognized as non-current inventory. As at December 31, 2016, it has been determined that \$160,235 of consumables would be used beyond 12 months.

The Company doesn't hold any inventories pledged as security for liabilities.

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9. PREPAYMENTS AND OTHER CURRENT ASSETS

	As at December 31, 2016 \$	As at December 31, 2015 \$
Prepayments ⁽¹⁾	110,702	272,303
Other current assets	2,405	2,401
Total prepayments and other current assets	113,107	274,704

(1) As a result of the suspension of operations, \$109,255 of prepaid royalties and drilling costs were reclassified to non-current assets as at March 31, 2016.

Prepayments and other current assets approximates fair value.

10. MINERAL INTERESTS

	Assets subject to amortization \$	Capitalized borrowing costs \$	Total \$
Cost			
As at January 1, 2015	1,637,631	415,765	2,053,396
Additions	143,302	45,643	188,945
Transfers	(2,554)	-	(2,554)
As at December 31, 2015	1,778,379	461,408	2,239,787
Additions	38,940	2,975	41,915
As at December 31, 2016	1,817,319	464,383	2,281,702
Accumulated amortization			
As at January 1, 2015	279,607	35,404	315,011
Charge for the year	76,974	16,228	93,202
Transfers	(2,554)	-	(2,554)
As at December 31, 2015	354,027	51,632	405,659
Charge for the year	6,254	82	6,336
As at December 31, 2016	360,281	51,714	411,995
Net book value			
As at December 31, 2015	1,424,352	409,776	1,834,128
As at December 31, 2016	1,457,037	412,669	1,869,706

As at December 31, 2016, no amortization charge was capitalized to inventories (as at December 31, 2015 - \$43,316). The amortization expense is included in operating expenses for 2016 and cost of sales for 2015 in the consolidated statements of loss (refer to note 21 and 20). Capitalized borrowing costs relate to the Phase 4 and 5 Expansion project that was finalized during the year ended December 31, 2015 and the continued development of the WOL Project.

KATANGA MINING LIMITED

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11. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment	Land and buildings	Capital spares	Finance lease assets	Assets under construction	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at January 1, 2015	1,704,058	34,761	54,905	34,423	564,564	2,392,711
Additions	10,847	-	33,230	-	330,993	375,070
Revision to decommissioning estimate	(14,166)	-	-	-	-	(14,166)
Disposals	(18,792)	-	-	-	-	(18,792)
Transfers	410,044	3,326	(18,792)	-	(399,006)	(4,428)
As at December 31, 2015	2,091,991	38,087	69,343	34,423	496,551	2,730,395
Additions	-	-	13,461	-	146,866	160,327
Revision to decommissioning estimate	1,091	-	-	-	-	1,091
Disposals	(28,177)	-	-	-	-	(28,177)
Transfers	304,611	2,091	(19,311)	-	(287,391)	-
As at December 31, 2016	2,369,516	40,178	63,493	34,423	356,026	2,863,636
Accumulated depreciation and impairments						
As at January 1, 2015	297,919	14,481	-	28,971	-	341,371
Charge for the year	92,452	2,183	-	4,042	-	98,677
Transfers	(4,499)	228	-	-	-	(4,271)
As at December 31, 2015	385,872	16,892	-	33,013	-	435,777
Charge for the year	21,104	2,625	-	353	-	24,082
Lease termination adjustment	-	-	-	1,057	-	1,057
Disposals	(1,582)	-	-	-	-	(1,582)
As at December 31, 2016	405,394	19,517	-	34,423	-	459,334
Net book value						
As at December 31, 2015	1,706,119	21,195	69,343	1,410	496,551	2,294,618
As at December 31, 2016	1,964,122	20,661	63,493	-	356,026	2,404,302

As at December 31, 2016, \$12,492 of the depreciation charge was capitalized to inventories (as at December 31, 2015 - \$89,092). Additionally, during the year ended December 31, 2016, \$2,281 of the depreciation charge was capitalized to mineral interests relating to the KOV asset (year ended December 31, 2015 - \$5,279). The depreciation expense is included in operating expenses for 2016 and cost of sales for 2015 in the consolidated statement of loss (refer to note 21 and 20).

The Company doesn't hold any Property, Plant and Equipment pledged as security for liabilities.

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2016 \$	As at December 31, 2015 \$
Accounts payable to related parties (refer to note 24)	138,972	94,008
Accounts payable to third parties	53,636	121,650
Accrued liabilities	56,750	88,059
Total accounts payable and accrued liabilities	249,358	303,717

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

	As at December 31, 2016 \$	As at December 31, 2015 \$
Less than 1 month	94,233	62,401
1 to 3 months	14,451	88,699
3 to 6 months	6,970	120,688
Over 6 months ⁽¹⁾	133,704	31,929
	249,358	303,717

(1) As at December 31, 2016, 3% (December 31, 2015 – 40%) of accounts payable and accrued liabilities were aged from 3 to 6 months, and 54% (December 31, 2015 – 11%) were aged over 6 months. Such amounts include related party amounts and accruals for goods and services received but not yet invoiced, are still considered payable.

Accounts payable and accrued liabilities approximates fair value.

13. PROVISIONS

The following table presents the movement in provisions during the year:

	Restructuring provision ⁽¹⁾ \$	SX/EW provision ⁽²⁾ \$	Other provisions ⁽³⁾ \$	Total \$
January 1, 2015	-	18,765	9,139	27,904
Additions	36,304	-	-	35,324
Utilization and settlements	(28,909)	(17,422)	(2,941)	(48,292)
December 31, 2015	7,395	1,343	6,198	14,936
Additions	-	-	1,008	1,108
Utilization and settlements	(7,395)	-	(1,329)	(8,724)
December 31, 2016	-	1,343	5,877	7,220

(1) On September 11, 2015, the Company announced the decision to suspend the processing of copper and cobalt during the construction phase of the Whole Ore Leach Project. The Whole Ore Leach Plant is expected to commence commissioning in the second half of 2017. The provision was created to cover contractor severance and employee redundancy costs arising from the mine operation restructuring and are not associated with ongoing activities (refer to note 21). As the procedures of the restructuring program have been completed, the restructuring provision has been fully utilized.

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13. PROVISIONS (continued)

- (2) During the year ended December 31, 2008, the Company indicated its intention to defer expansion plans relating to the development of a solvent extraction and electro-winning plant. As at December 31, 2008, the Company recorded a provision for further amounts based on legal obligations incurred relating to work carried out on terminated contracts before and after December 31, 2008. In addition, due to the expiry of the limitation period relating to a terminated contract, a proportionate amount of \$17,422 was released to other income in the year ended December 31, 2015. The balance outstanding at December 31, 2016 represents the estimated amount remaining to be settled in relation to the remaining contracts.
- (3) The other provisions principally consist of expected employee benefit costs for leave pay and long-service awards.

14. AMENDED LOAN FACILITIES – RELATED PARTIES

In December 2011, the Company announced the execution of two loan facilities with Glencore Finance (Bermuda) Limited, a subsidiary of Glencore, with total available borrowing of up to \$635,500 (the "Loan Facilities"). \$120,000 was provided to the Company during the year ended December 31, 2011, as a new term loan facility (the "Term Loan") to fund in substantial part the redemption of the Company's debentures. On December 13, 2012, the second facility (the "Senior Facility"), making up the balance of the available borrowing and amounting to \$515,500, was provided to a subsidiary of the Company and together with other subsidiaries of the Company as guarantors, as a senior secured credit facility to fund a portion of the Updated Phase 4 Expansion Project not covered by the Company's cash flows.

On November 26, 2014, the Company announced the execution of extended and increased loan facilities with Glencore Finance (Bermuda) Limited. The amended facilities are comprised of the Senior Facility and Term Loan, each as amended (the "Amended Loan Facilities") as follows:

The Senior Facility was increased to include the existing \$515,500 Senior Facility (plus accrued interest thereon) and \$1,815,785 of uninvoiced customer prepayments provided by Glencore International AG to KCC (plus accumulated interest thereon), which were converted into loans bearing interest at 10% per annum and provided by Glencore Finance (Bermuda) Limited. Included in the total amount of the amended Senior Facility was further funding of \$50,000, which was subsequently fully drawn down, made available according to the cash flow requirements of KCC based on the approved budgets for the Phase 5 expansion and the Power Project. The amount of the Term Loan remained unchanged at \$120,000 plus accumulated interest. The maturity of the Senior Facility and the Term Loan was extended to January 1, 2021. All other material terms of the Senior Facility and the Term Loan remained the same.

The Company's 75% interest in KCC (which holds the copper and cobalt project assets) has been pledged as security for the Senior Facility along with certain other assets of the Company and its subsidiaries. As security for the Term Loan and additional security for the Senior Facility, the Company has agreed, if a Loan Facility is in default, to complete a discounted rights offering with a Glencore subsidiary providing a standby commitment, to repay the Loan Facility. In the case of the Senior Facility, a Glencore subsidiary has agreed to exercise its right to compel the Company to complete the discounted rights offering prior to realizing on the Glencore subsidiary's other security. The Loan Facilities contain undertakings which restrict the Company's and other Company subsidiaries' ability to (i) make acquisitions, (ii) grant loans, (iii) provide guarantees, (iv) pledge or dispose of their assets, as well as certain additional undertakings which are customary for these type of transactions.

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14. AMENDED LOAN FACILITIES – RELATED PARTIES (continued)

The Amended Loan Facilities balance is comprised of the following:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Balance, beginning of the year	3,057,760	2,770,863
Changes during the year:		
Facilities draw-down	-	1,800
Interest capitalized and payable on maturity ⁽¹⁾	274,172	255,730
Interest payable on maturity but not yet capitalized ⁽¹⁾	31,335	29,367
Balance, end of the year	3,363,267	3,057,760

- (1) Interest is payable on any amount drawn under the Amended Loan Facilities at a rate of 10% per annum. Before finalization of the Amended Loan Facilities, financing received through customer prepayments bore interest at a rate of 3-month LIBOR plus 3% fixed on the date of receipt. Interest is capitalized twice a year to the Amended Loan Facilities and payable on maturity. The amount of interest payable has therefore been split between interest capitalized and interest payable but not yet capitalized to the Amended Loan Facilities. All of the interest incurred was expensed (refer to note 10).

15. OTHER NON-CURRENT LIABILITIES

The other non-current liabilities balance is comprised of the following:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Finance lease liability ⁽¹⁾		
Current	-	1,409
Non-current	-	-
Total	-	1,409
Total current portion of other non-current liabilities	-	1,409
Total non-current portion of other non-current liabilities	-	-

- (1) Mining equipment was sold to and leased back from the Company's primary mine contractor. The related finance lease had a lease term of 5.5 years. The Company had the option to purchase the equipment for its residual value at the end of the lease term. The interest rate underlying the obligation was fixed at the contract date at 4.72% per annum. On March 21, 2016, the lease was terminated by mutual agreement and the Company purchased the related mining equipment for its residual value. As a result, the finance lease liability was \$nil as at December 31, 2016.

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16. DECOMMISSIONING AND ENVIRONMENTAL PROVISIONS

Decommissioning and environmental provisions arise from the acquisition, development, construction and normal operation of mining property, plant and equipment due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The decommissioning and environmental provisions are calculated at the net present value of estimated future cash flows of the reclamation and closure costs which total \$102,365 (undiscounted) (December 31, 2015 \$102,365) and are required to satisfy the obligations until 2034 (December 31, 2015 – until 2034). A risk-adjusted discount rate of 10.70% was applied to the expected future cash flows to determine the carrying value of the provisions (December 31, 2015 – 11.25% discount rate). The following table details the items that affect the decommissioning and environmental provisions:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Provisions, beginning of the year	12,445	24,518
Accretion	1,538	2,025
Charged to cost of sales	-	68
Charged to operating expenses	60	-
Revision to estimate	1,091 ⁽²⁾	(14,166) ⁽¹⁾
Provisions, end of the year	15,134	12,445

(1) As at January 1, 2015, the Company reassessed its estimate regarding the expected closure date of the mining properties from 2030 to 2031. This resulted in a \$2,517 decrease in the provisions and a corresponding decrease in property, plant and equipment.

As at June 30, 2015, the Company reassessed its estimate regarding the total reclamation and closure costs from \$138,500 to \$102,365 and the expected closure date of the mining properties from 2031 to 2034. This resulted in an \$11,145 decrease in the provisions and a corresponding decrease in property, plant and equipment.

As at September 30, 2015, the Company reassessed its risk-adjusted discount rate due to changes in the Company's weighted average cost of capital. This resulted in a \$504 decrease in the provisions and a corresponding decrease in property, plant and equipment.

(2) As at September 30, 2016, the Company reassessed its risk-adjusted discount rate due to changes in the Company's weighted average cost of capital. This resulted in a \$1,091 increase in the provision and a corresponding increase in property, plant and equipment (refer to note 11).

As at December 31 2016, there were no significant changes since September 30, 2016.

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17. SHARE CAPITAL

(a) AUTHORIZED AND ISSUED

As at December 31, 2016, and December 31, 2015, the share capital consisted of:

	Number of shares	\$
Authorized:	Unlimited	Unlimited
Issued:	1,907,380,413	190,750

(b) 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, 2015	7,153,658	\$2.85
Forfeited during the year	(3,095,406)	(\$0.97)
Outstanding at December 31, 2015	4,058,252	\$4.28
Forfeited during the year	(1,562,754)	(\$0.79)
Outstanding at December 31, 2016	2,495,498	\$6.47

(1) Denominated in Canadian dollars.

The following table summarizes the share options outstanding at December 31, 2016:

Exercise Price per Share ⁽²⁾	Exercisable Options	Outstanding unvested Options	Total
\$0.01-\$1	-	370,378	370,378
\$1-\$1.20	1,222,767	-	1,222,767
More than \$2	902,353	-	902,353
	2,125,120	370,378	2,495,498

(2) Denominated in Canadian dollars.

The weighted average exercise price of exercisable options is Canadian \$7.45 (December 31, 2015 - \$7.45) and outstanding unvested options is Canadian \$0.82 (December 31, 2015 - \$0.80).

During the year ended December 31, 2016, the Company recorded a share-based compensation recovery of \$611 (year ended December 31, 2015 - \$1,181 recovery), which has been included in general and administrative expenses in the statement of loss.

(c) DILUTED LOSS PER SHARE

Total share options of 2,495,498 (December 31, 2015 – 4,058,252) were excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares for the year ended December 31, 2016, of Canadian \$0.15 (year ended December 31, 2015 – Canadian \$0.22)

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18. NON-CONTROLLING INTERESTS

The following table details the movement in the non-controlling interests for the year:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Non-controlling interests, beginning of the year	(400,213)	(194,760)
Non-controlling interests' share of net losses	(213,565)	(205,453)
Non-controlling interests, end of the year	(613,777)	(400,213)

The non-controlling interests consist of the 25% investment in KCC held by Gécamines, which is incorporated in the DRC – being its principal place of business. This investment is subject to the Joint Venture Agreement, and all provisions remain consistent with those described in the Company's Annual Information Form for the year ended December 31, 2015, dated March 30, 2016, which is available under the Company's profile on SEDAR at www.sedar.com.

The non-controlling interests' share of net losses includes the effect of intercompany transactions within the Katanga group. These transactions, consisting principally of interest expense on loans received by KCC, are eliminated on consolidation within these consolidated financial statements.

Summarised financial information in respect of KCC is set out below:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Current assets	496,675	639,531
Non-current assets	4,397,903	4,263,977
Total assets	4,894,578	4,903,508
Current liabilities	(3,964,514)	(3,560,462)
Non-current liabilities	(3,986,812)	(3,545,537)
Total liabilities	(7,951,326)	(7,105,999)
Capital deficiency	(3,056,748)	(2,202,491)
Exclude: pre-2010 equity ⁽¹⁾	601,642	601,642
Attributable capital deficiency	(2,455,106)	(1,600,849)
Non-controlling interests (25%)	(613,777)	(400,213)
Capital deficiency	(3,056,748)	(2,202,491)
Elimination of Katanga intra-group balances	3,975,202	3,535,206
Equity attributable to owners of the Company	1,532,231	1,732,928

- (1) A non-controlling interest in the Company's statement of financial position and statement of (loss) income and comprehensive (loss) income which represents the 25% share that pertains to Gécamines' interest is normally recorded regardless of whether the non-controlling interest position is in a deficit balance or not. However, upon the Company's conversion from Canadian Generally Accepted Accounting Principles to IFRS in 2011, pursuant to the exemption from retrospective application set out in IFRS 1, this was applied prospectively from the date of transition to IFRS, with no reduction of the non-controlling interests' share of income in the year ended December 31, 2010, as a result of losses in prior years.

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18. NON-CONTROLLING INTERESTS (continued)

Further summarised financial information in respect of KCC is set out below:

	Years ended December 31,	
	2016	2015
Revenue	(30,127)	669,703
Expenses	(824,131)	(1,491,513)
KCC attributable net loss and comprehensive loss for the year	(854,258)	(821,810)
Loss attributable to non-controlling interests (25%)	(213,565)	(205,453)
Elimination of Katanga intra-group transactions ⁽¹⁾	426,576	397,746
Loss attributable to owners of the Company	(214,118)	(218,612)
Net cash outflow from operating activities	(159,060)	(724,826)
Net cash outflow from investing activities	(213,097)	(386,862)
Net cash inflow from financing activities	335,544	1,161,505
Total net cash outflow	(36,614)	49,817

(1) Principally interest incurred on intercompany loans.

19. SALES

	Years ended December 31,	
	2016 \$	2015 \$
Copper metal	(29,679)	597,182
Cobalt metal	(448)	72,519
Sales	(30,127)	669,701

Copper and cobalt sales are made under various sales agreements. Sales are made at a provisional price in the month of shipment with final pricing based on average copper and cobalt prices at a specified date as stated in the relevant sales agreement. At each reporting date, open provisionally priced sales which retain an exposure to future changes in prices are marked-to-market based on forward prices (per the LME) offset by the contractual discount with adjustments being recorded in sales in the consolidated statement of loss and receivables on the consolidated statement of financial position. The marked-to-market gain for the year ended December 31, 2016 was \$12 (year ended December 31, 2015, \$4,676 gain) with a corresponding movement in receivables.

During the year ended December 31, 2016, additional quality discounts of \$26,990 relating to the finalization of 2015 sales were incurred.

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19. SALES (continued)

As at December 31, 2016, the Company recognized a customer prepayments balance from Glencore International AG on copper and cobalt due to advance payments received on future sales and contractual obligations to invoice upon shipment of goods from the mine site. Sales revenue is not recognized in the statement of loss until title and ownership has transferred. The customer prepayments balance is comprised of the following:

	As at December 31, 2016 \$	As at December 31, 2015 \$
Balance, beginning of the year	1,208,243	2,385
Changes during the year:		
Change in invoiced shipments awaiting transfer of title	50	(2,385)
Advanced payments received	337,975	1,188,207
Interest payable on advanced payments received	46,493	20,036
Balance, end of the year	1,592,761	1,208,243

Financing received through customer prepayments bears interest at a rate of 3-month LIBOR plus 3% fixed on the date of receipt. Interest rate risk is discussed under note 3.

\$43,526 of the total interest incurred has been expensed and \$2,967 has been capitalized to mineral interests (refer to note 10). During 2015, \$19,686 was expensed and \$350 was capitalized to mineral interests.

20. COST OF SALES

	Years ended December 31,	
	2016 \$	2015 \$
Mining, processing and other costs	-	733,489
Royalties and transportation costs	-	101,986
Depreciation and amortization	-	186,601
Expense on issue of capital spares to production	-	18,792
Gain on disposal of property, plant and equipment	-	(468)
Inventory write-down	-	85,890
Cost of sales	-	1,126,290

Cost of sales in the current year is nil as no sales were generated due to the suspension of production. Please refer to note 21.

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21. OPERATING EXPENSES

	Years ended December 31,	
	2016	2015
	\$	\$
Mining, care and maintenance and other costs	201,203	-
Royalties recoveries	(1,296)	-
Depreciation and amortization	28,126	-
Expense on issue of capital spares to production	19,311	-
Gain on disposal of property, plant and equipment	(550)	-
Operating expenses	246,794	-

Operating costs of \$246,794 were generated in the current year. Due to the suspension of production no cost of sales were generated. Please refer to note 20.

22. RESTRUCTURING EXPENSES

The following represent amounts incurred as part of the restructuring (as disclosed in Notes 1 and 13) of the Company's operations required to improve the Company's copper recoveries and operating unit costs:

	Years ended December 31,	
	2016	2015
	\$	\$
Restructuring cost (recovery) expenses ⁽¹⁾	(600)	9,301
Employee redundancy costs ⁽²⁾	-	27,003
Restructuring (income) expenses	(600)	36,304

(1) Certain contractor service contracts were cancelled resulting in early termination charges. Please refer to note 13 for further details.

(2) Employee redundancy costs represent costs to terminate employees in the DRC as a result of the plant shutdown.

23. NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss includes:

	Years ended December 31	
	2016	2015
	\$	\$
Employee benefit expense ⁽¹⁾	100,918	149,867
Operating lease expense	3,049	15,595

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

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24. RELATED PARTY TRANSACTIONS

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

Galif Investments Limited (“Galif”), registered in Bermuda, is an aircraft management company whose ultimate beneficial owner is Glencore. During 2016 and 2015, Galif provided aircraft maintenance and auxiliary services to the Company in the normal course of business and on arm’s length commercial terms. For the years ended 2016 and 2015, the Company incurred charges of \$2.3 million and \$1.9 million, respectively.

Glencore is the Company’s ultimate majority shareholder and is represented on the Board of Directors of the Company. In November 2007, Glencore’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 for the life of any mines and plants operated, acquired and / or developed by the Company in the DRC. The off-take agreements were entered into before Glencore was a related party of the Company. In December 2011, the Company entered into the Loan Facilities with total available borrowings of \$635,500, which was fully drawn down during 2011 and 2012. These Loan Facilities were amended in 2014 (refer to note 14).

Mutanda Mining SARL (“Mutanda”) is a copper and cobalt producer located in the DRC and is a 69% owned subsidiary of Glencore. During the year ended December 31, 2012, the Company commenced the Power Project with Mutanda and Kansuki SPRL (since merged with Mutanda) (refer to note 25). Additionally, there is an agreement in place for employees of either Katanga or Mutanda to use charter flights operated by either company with associated costs invoiced. In November 2014, the Company’s Board of Directors, including its independent directors, unanimously approved entering into a contract for the sale by Mutanda of copper concentrate to the Company, in the ordinary course of business and on arm’s length commercial terms. During 2015, Mutanda supplied processing consumables and medical services to the Company. Further, during 2016, the Company supplied warehouse inventory items to Mutanda. These services were provided in the normal course of business and on arm’s length commercial terms.

Mopani Copper Mines Plc (“Mopani”) is a copper and cobalt producer located in Zambia. Mopani is a 73.1% owned subsidiary of Glencore. During 2015, Mopani supplied sulphuric acid and other consumables to the Company in the normal course of business and on arm’s length commercial terms. Further, during 2016, the Company sold mining fleet to Mopani. This sale was done in the ordinary course of business and on arm’s length commercial terms.

Glencore Technology Proprietary Limited (“Glencore Technology”) is a provider of mining services and is a 100% subsidiary of Glencore. During 2016 and 2015, Glencore Technology provided mining equipment and services to the Company, in the normal course of business and on arm’s length commercial terms.

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

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24. RELATED PARTY TRANSACTIONS (continued)

Transactions

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

	Years ended December 31,	
	2016 \$	2015 \$
Purchases from related parties		
Galif	2,265	3,866
Glencore International AG ⁽¹⁾	358,899	354,821
Mopani	-	14,130
Mutanda	-	8,000
Glencore Technology	3	1,493
Sales to related parties		
Glencore International AG ⁽²⁾	(26,057)	670,446
Mopani ⁽³⁾	7,152	-
Mutanda ⁽⁴⁾	41,078	7,303

- (1) Amount includes interest payable under the Amended Loan Facilities and customer prepayments.
- (2) Amounts included in sales for copper and cobalt are included in operating expenses for 2016 and cost of sales for 2015 in the consolidated statement of loss related to the disposal of property, plant and equipment. Negative sales amounts are a result of quality discounts.
- (3) Amounts included in operating expenses for 2016 in the consolidated statement of loss related to the sale of mining fleet.
- (4) Amounts included in operating expenses for 2016 and cost of sales for 2015 in the consolidated statement of loss as these are recoverable charter flight costs which are netted against the underlying expense as well as sale of warehouse inventory items.

As at	December 31,	December 31,
	2016 \$	2015 \$
Amounts owed to related parties		
Galif	4,962	2,696
Glencore International AG ⁽⁵⁾	5,050,802	4,346,059
Mopani	192	517
Mutanda ⁽⁶⁾	39,044	10,333
Glencore Technology	-	408
Amounts owed by related parties		
Glencore International AG	212	23,730
Mopani	7,152	-
Mutanda ⁽⁶⁾	22,288	-
Glencore Technology	5	-

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Years ended December 31, 2016 and 2015

24. RELATED PARTY TRANSACTIONS (continued)

- (5) Amount includes customer prepayments (refer to note 19) and Amended Loan Facilities (refer to note 14).
- (6) Amount represents advanced payments received on the Power Project (refer to note 26), amounts owing for the purchase of concentrate, processing consumables and medical services and amounts owed by Mutanda for their purchase of warehouse inventory items.

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (executive and non-executive) of the Company.

The remuneration of directors and other members of personnel during the year was as follows:

	Years ended December 31,	
	2016	2015
	\$	\$
Short-term benefits	3,478	6,939
Other benefits ⁽¹⁾	326	65
Termination benefits	74	53
Share-based compensation ⁽¹⁾	14	114
Total compensation	3,892	7,171

(1) Share-based compensation has been replaced by a long-term incentive plan.

25. INVESTMENTS IN SUBSIDIARIES

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

Name	Country of incorporation	% Equity interest	
		December 31, 2016	December 31, 2015
Global Enterprises Limited	British Virgin Islands	100%	100%
Kamoto Copper Company SA	DRC	75% ⁽¹⁾	75% ⁽¹⁾
Kamoto Operating Limited Sprl	DRC	100%	100%
Katanga Mining Finance Limited	Guernsey	100%	100%
Katanga Mining Holdings Limited	Isle of Man	100%	100%
Katanga Mining Services (SA) Proprietary Limited	South Africa	100%	100%
Katanga Mining Services (Switzerland) AG	Switzerland	100%	100%
KFL Limited	British Virgin Islands	100%	100%
KML (BVI) Holdco Limited	British Virgin Islands	100%	100%

(1) Remaining 25% shareholding held by Gécamines (refer to note 18).

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26. COMMITMENTS

The following summarizes the Company's contractual and other commitments as at December 31, 2016:

Commitments due by year	Total	Less than	1-3	4-5	After 5
	\$	1 year	years	years	years
		\$	\$	\$	\$
Capital expenditure commitments ⁽¹⁾	57,223	57,223	-	-	-
Gécamines minimum royalty payment ⁽²⁾	18,000	1,800	3,600	3,600	9,000
Power Project ⁽³⁾	28,979	17,157	11,822	-	-
Total commitments	104,202	76,180	15,422	3,600	9,000

- (1) The capital expenditure commitments relate to the Whole Ore Leach Project (\$54,747) and other infrastructure projects. Glencore has indicated it will provide or procure the additional funding required, if any, for the completion of these projects.
- (2) Pursuant to the terms of the Joint Venture Agreement, all installations and infrastructures within the perimeter of the KCC concession are being rented for an annual minimum royalty payment to Gécamines of \$1,800. As a result of the suspension of operations, \$52,127 of prepaid royalties were reclassified to non-current assets as at March 31, 2016.
- (3) In order to meet the needs for additional and reliable electrical power for the development of their mining activities, KCC and Mutanda entered into agreements with the DRC electricity provider, La Société Nationale d'Electricité ("SNEL"), to fund the rehabilitation of certain of SNEL's generation and transmission infrastructures (the "Power Project"). KCC will fund \$385,555 for the Power Project commencing from the second quarter of 2012 to the end of 2017 but will be reimbursed \$257,037 by Mutanda. Accordingly, KCC's net funding contribution will be \$128,518, of which \$99,539 has been funded as of December 31, 2016 (included in other non-current assets in the statement of financial position). \$380,555 of this amount will be reimbursed by SNEL ("Debt Amount") via credits to power bills payable by the Company and its affiliates. Interest will accrue at 6 months LIBOR + 3% on the Debt Amount from date of drawdown to date of reimbursement. SNEL will retain ownership of the generation and transmission infrastructures throughout the duration of the Power Project and thereafter. Glencore has indicated it will provide or procure the additional funding required, if any, for the completion of the Power Project.

27. CONTINGENT LIABILITIES

Guarantees are disclosed in Note 14.

The Company and its subsidiaries are subject to routine legal proceedings and tax audits. While the Company cannot predict the results of any legal proceedings, it believes it has meritorious defences against those claims. The Company believes the likelihood of any liability arising from these claims to be remote and that the liability, if any, resulting from any litigation or tax audits, individually or in aggregate, will not have a material adverse effect on its earnings, cash flow or financial position.

The Company's operations in the DRC are subject to various environmental laws and regulations. The Company is in material compliance with those laws and regulations. Environmental contingencies are accrued by the Company when such contingencies are probable and reasonably estimable. At this time, the Company is unaware of any material environmental incidents at its operations in the DRC.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Years ended December 31, 2016 and 2015

28. INCOME TAXES

The following table reconciles the expected income tax recovery at the statutory income tax rates to the amounts recognized in the statement of loss:

	Years ended December 31,	
	2016 \$	2015 \$
Loss before income taxes	(632,231)	(740,785)
Expected income tax recovery at Canadian statutory rates	183,347	214,828
Effect of difference in foreign tax rates	75,447	48,083
Permanent differences	(6,719)	4,379
Current year temporary differences not recognized	(255,076)	(163,934)
Tax payments related to previous years	(6,016)	-
Utilization of prior year losses not previously recognized	-	7,913
Income tax (expense) recovery	(9,017)	111,269

The components of the income tax expense (recovery) comprise:

	Years ended December 31,	
	2016 \$	2015 \$
Current tax expense		
Canada	-	-
Foreign	6,047	719
Deferred tax expense (recovery)		
Canada	-	-
Foreign	2,970	(111,988)
	9,017	(111,269)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Years ended December 31, 2016 and 2015

28. INCOME TAXES (continued)

The following table reflects the deferred income tax asset and liability amounts at December 31, 2016 and December 31, 2015:

As at	December 31, 2016 \$	December 31, 2015 \$
Deferred income tax assets		
Non-capital losses carried forward	601,318	601,318
Other	83,731	84,096
Total deferred income tax assets	685,049	685,414
Deferred income tax liabilities		
Property, plant and equipment and mineral interests	(281,837)	(279,234)
Total deferred tax liabilities	(281,837)	(279,234)
Deferred income tax assets – net	403,212	406,180

As at December 31, 2016, the deferred income tax assets of \$ 685,049 (December 31, 2015 – \$685,415) primarily represent tax losses carried forward in the DRC. All of the aforementioned deferred tax assets arise in an entity that has incurred losses in 2016 and 2015. These have been recognized based on the Company's taxable income projections and its ability to utilize its net operating loss carry forwards and other tax assets relating to KCC. The Company will continue to monitor the assumptions underlying the taxable income projections including commodity pricing and operational issues.

As at December 31, 2016, unremitted earnings of \$ 1,743,838 (December 31, 2015 – \$1,505,864) have been retained by subsidiaries for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings. If earnings were remitted, an immaterial tax charge would result based on the tax rates currently in effect.

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

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28. INCOME TAXES (continued)

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

As at	December 31, 2016 \$	December 31, 2015 \$
2030	3,009	3,009
2031	23,289	23,289
2032	16,357	16,357
2033	16,454	16,454
2034	20,352	20,352
Do not expire ⁽¹⁾	3,383,154	2,550,311
Total gross non-capital losses	3,462,615	2,629,772

(1) Due to changes in the Finance Act in the DRC, substantively enacted in January 2015, tax losses no longer expire and may be carried forward indefinitely and be utilized against 70% of taxable income in any given tax year. As such, these losses have been included in the category "Do not expire" for 2016 and 2015 above and below. The losses expiring in the years ended 2030 to 2035 arise in Canada.

The following table reflects the expiry of the Company's unrecognized gross losses (included in the table above):

As at	December 31, 2016 \$	December 31, 2015 \$
2030	3,009	3,009
2031	23,289	23,289
2032	16,357	16,357
2033	16,454	16,454
2034	20,352	20,352
Do not expire	1,378,759	545,916
Total unrecognized gross non-capital losses	1,458,220	625,377

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Years ended December 31, 2016 and 2015

29. SEGMENTED INFORMATION

The Company has one operating segment being its mining operations in the DRC.

The operating segment comprises the mining, processing and selling of copper and cobalt. The corporate activities comprise the management of cash and cash equivalents, logistics and general corporate activities conducted in Canada and Switzerland. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating and reporting segments. The accounting policies of the operating segment are the same as those described in the summary of significant accounting policies.

The corporate costs are reflected along the side of the operating segment in order to reconcile the balances per the operating segment to the statement of financial position.

	Mining operations	Corporate costs	Total
As at December 31, 2016	\$	\$	\$
Cash and cash equivalents	784	734	1,518
Non-current assets	5,247,899	20,750	5,268,649
Other assets	495,890	-	495,890
Total assets	5,744,573	21,484	5,766,057
Total liabilities	(5,029,457)	(198,283)	(5,227,740)
Net assets	715,116	(176,799)	538,317
As at December 31, 2015	\$	\$	\$
Cash and cash equivalents	37,398	342	37,740
Non-current assets	5,117,329	20,835	5,138,164
Other assets	602,131	650	602,781
Total assets	5,756,858	21,827	5,778,685
Total liabilities	(4,418,306)	(180,204)	(4,598,510)
Net assets	1,338,552	(158,377)	1,180,175

Included in non-current assets is total additions to property, plant and equipment of \$202,242 (2015: \$564,015)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. SEGMENTED INFORMATION (continued)

Year ended December 31, 2016	Mining operations	Corporate costs	Total
	\$	\$	\$
Sales (refer to note 19)	(30,127)	-	(30,127)
EBITDA ⁽¹⁾	(246,864)	(2,277)	(249,141)
Restructuring recovery	600	-	600
Depreciation and amortization	(28,126)	-	(28,126)
Interest income	6,352	649	7,001
Interest expense	(140,498)	(221,467)	(361,965)
Income tax expense	(9,011)	(6)	(9,017)
Net loss	(418,147)	(223,101)	(641,248)
Year ended December 31, 2015	\$	\$	\$
Sales (refer to note 19)	669,701	-	669,701
EBITDA ⁽¹⁾	(282,265)	(3,432)	(285,697)
Restructuring expense	(36,304)	-	(36,304)
Depreciation and amortization	(186,479)	(122)	(186,601)
Interest income	5,926	1,307	7,233
Interest expense	(104,857)	(170,863)	(275,720)
Income tax recovery (expense)	111,291	(22)	111,269
Net loss	(456,384)	(173,132)	(629,516)

(1) Non-IFRS financial measure

The Company uses the non-IFRS financial measure, EBITDA (earnings before interest, tax, depreciation and amortization), as it believes this measure provides useful information to both management and investors in measuring the financial performance of the Company. This measure does not have a standardized meaning proscribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

EBITDA has been calculated as net loss excluding: depreciation and amortization; interest income; interest expense; and income tax recovery (expense).

30. AUTHORISATION OF FINANCIAL STATEMENTS

Financial statements were authorised for issue by Hugh Stoyell, on February 8, 2017.

31. EVENTS AFTER THE REPORTING DATE

The company had no events after the reporting date.