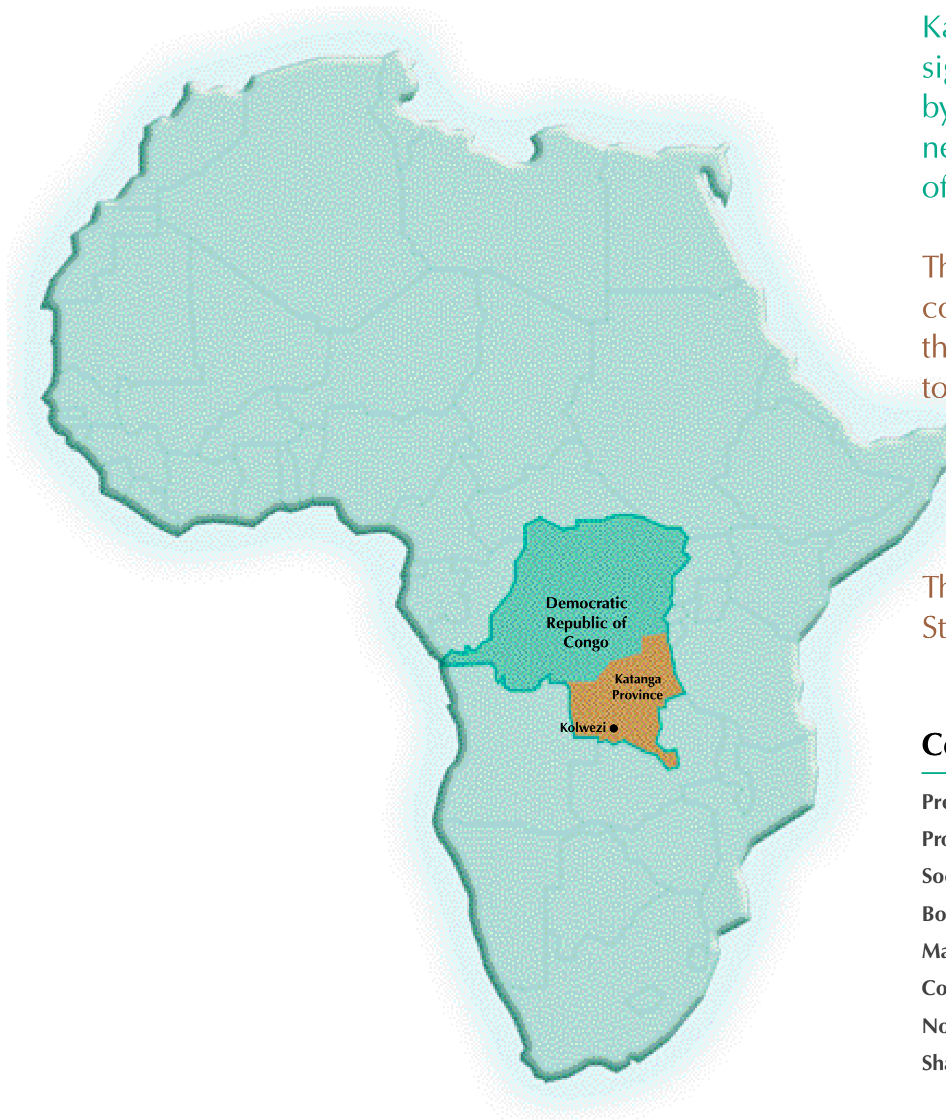
# Building a Leading Copper Company

## 2006 ANNUAL REPORT




Katanga Mining Limited is becoming significant in global copper mining by rehabilitating mines and plants near Kolwezi in the Katanga Province of the Democratic Republic of Congo.

The site is getting ready to ship copper in December 2007. By 2011, the complex will produce 150,000 tonnes of refined copper and 5,000 tonnes of refined cobalt a year and will be among the world's lowest cost producers.

The Company is listed on the Toronto Stock Exchange under the symbol KAT.

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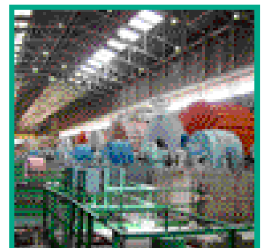
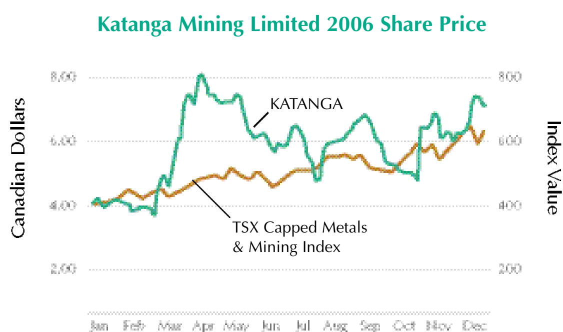


# 2006 Highlights

- Feasibility study confirmed the long-term economic viability of the rehabilitation of the mine complex at Kolwezi
- Completed acquisition of Kinross Forrest Limited, the original signatory to the Kamoto joint venture
- Listed Katanga Mining Limited on the Toronto Stock Exchange
- Assumed control and management of mine site and assets
- Successfully raised a total of CDN$267.25 million through an equity private placement and corporate debenture
- Reconstituted board of directors with strong representation from Democratic Republic of Congo
- Recruited corporate executive team for new London office and operational management team for Kolwezi site
- Mobilization, site preparation and procurement on track for production late 2007.

**Katanga Mining Limited 2006 Share Price**




| 2006 | Volume (millions) | CDN$ Per Share (average) High | Low | Close |
|---|---|---|---|---|
| Quarter 1 | 12.4 | 4.68 | 4.50 | 4.61 |
| Quarter 2 | 8.01 | 6.71 | 6.47 | 6.60 |
| Quarter 3 | 11.9 | 5.88 | 5.73 | 5.81 |
| Quarter 4 | 16.4 | 6.12 | 5.92 | 6.03 |

By almost any measure, 2006 - Katanga Mining Limited's inaugural year - was exceptional as we staged the Company to undertake its core mission of rebuilding the mines and plants within the Kamoto joint venture.

The feasibility study and technical report released in April confirmed the long-term economic viability of our joint venture. On June 27, Katanga Mining Limited exercised its option to acquire the remaining outstanding shares of Kinross Forrest Limited, the owner of a 75 per cent interest in the Kamoto joint venture, and was approved for a full listing on the Toronto Stock Exchange. That same day the joint venture officially took control of the Kolwezi site.

The remainder of 2006 entailed a dramatic undertaking to remove thousands of cubic meters of debris and material clogging all plant sites. By year end, mobilization of people, equipment and material to prepare the work areas for reconstruction and repair at the beginning of 2007 was close to completion.

At the same time, the procurement program has been well established in a short time. Detailed engineering, preparing bid specifications, calling tenders, and awarding contracts for supply and site work were also largely completed by the end of 2006.

## Financing is on track

In 2006, we completed two stages of Katanga Mining Limited's three stage capital structure to provide the financing the company needs for the rehabilitation of the mine complex, raising a total of CDN$267.25 million through an equity private placement and corporate debenture.

Both of the offerings were oversubscribed and it was gratifying to see the appetite from the market, which is reflective of confidence in the Company and in developments in the Democratic Republic of Congo. I am confident that the final stage, a project credit facility for US$260 million, will be available for drawdown during the autumn of 2007. This should complete all financing needed for the four phase reconstruction program required to achieve 150,000 tonnes of annual copper production.

## Staffing achievements

Central to achieving our goal of a 'fast track' reconstruction and start up is staffing of both the site and corporate organizations. As the year progressed, most employees for Katanga Mining Limited's corporate office - newly established in London, England to enhance our ability to oversee the rehabilitation project - were complete. The site group, consisting of both operations and reconstruction teams, has come together very well after an international recruiting program.

At year end there were just over 1,700 employees working for the Company. It has been gratifying to see the skills of so many local people brought back into use and to see first-hand the impact that a regular income has already made on their lives and outlook on the future.

“The foundation of any mining enterprise is the scale and quality or grade of its reserves and resources. Katanga Mining Limited is a standout in this respect.”

## A new era in the DRC

As well as for Katanga Mining Limited, 2006 was a remarkable year for the Democratic Republic of Congo. After so many years of instability, the country held its first democratic elections for 40 years and Joseph Kabila was elected President in November.

In early 2003, when negotiations to create the Kamoto joint venture began as a result of a new mining code, a workable and financeable outcome seemed far off. Now, because of quite amazing transformations - including a constitution adopted by national referendum; a popularly elected government; good work by the World Bank, the UN, and others; and a revived demand for commodities - capital in many forms is moving to the DRC.

I am optimistic this positive trend will continue. The country once had a very vibrant economy and the revival of the mining sector has an important role to play in ensuring living conditions improve for so many of the country’s people.

We can already see the effect of the joint venture’s presence in Kolwezi, as local availability of supplies and services improves because of the substantial payroll we provide. Tax remittances to the national government for duties and payroll taxes are now a steady stream that will play an important role in helping to improve the country’s infrastructure.

Katanga Mining Limited also wants to play a more direct role in helping the communities in and around our operations develop their social infrastructure. Our approach will be to have a clear focus on strategically high impact, self sustaining projects that enable the community to help itself.

## Strong corporate governance

From the outset, Katanga Mining Limited has been structured to meet standards of governance, risk management, operational performance, and corporate social responsibility that not only meet specific needs today, but that also reflect the capability of companies and organizations that are much larger and more mature.

This approach is essential in attracting the quality of employee we need and want. I think it will also produce the capabilities needed to deliver performance on the many fronts that ultimately produce the positive outcomes we, as shareholders and stake-holders, all expect.

I feel it is extremely important that our Board reflects the country in which we operate. Consequently, we made significant changes in 2006, increasing the number of representatives from the country to half of the eight-member Board. I believe the Board now provides a clear voice of the Congolese people that filters through to our management approach.

## Reserves provide a strong foundation

The foundation of any mining enterprise is the scale and quality or grade of its reserves and resources. Katanga Mining Limited is a standout in this respect. Not only are its attributable reserves very large, but they are of outstanding grade and uniformity, which facilitates efficient and cost effective mining.

The reserves and resources of the joint venture as of December 31, 2006 are 5.67 million tonnes of copper and 614,000 tonnes of cobalt and an average grade of 3.50 per

cent copper and 0.38 per cent cobalt. We believe these inventories are sustainable and that they will increase over time.

## Ambitious goals for 2007

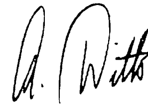
This year we transform Katanga from a development company to a producer. From this overriding objective, come our goals for 2007:

- Execute on-time and on-budget phase one of the capital program that will see us produce refined copper by year end
- Successfully close the project credit facilities to meet all corporate and project financing needs of the Company and the Kamoto joint venture
- Build a site organization capable of the safe, efficient and environmentally responsible operation of all mines and plants
- Ensure the quality of life for our employees and the community at large continues to improve through upgraded community services and infrastructure
- Have the market value of Katanga Mining Limited reflect its increasing intrinsic value as more capital is invested in the mines and plants.

## Opportunity and challenge in 2007

The past year was one of major accomplishments and all of us can be very proud of what we achieved. The impressive initiative of our advisors was crucial to an early start, and we are thankful for their support along with that of our shareholders, who continue to grow in number.

As the year progressed, we were fortunate to be able to attract many talented people to the Company, from directors to entry level personnel. I am very grateful for the contribution they have already made, and together we are becoming more prepared and capable by the day of achieving the goals we've set.



**Arthur H. Ditto**
*President and Chief Executive Officer*

*March 27, 2007*

# Project Overview

Katanga Mining Limited is rehabilitating a mine complex located on the Congolese copperbelt near Kolwezi in the Democratic Republic of Congo.

The site comprises the Kamoto underground mine and the open pit mines of Dikuluwe, Mashamba East and Mashamba West (together known as DIMA) and Musonoie-T17. Ore will be processed and refined onsite at the Kamoto concentrator and Luilu metallurgical plant. The concession covers an area of over 15,000 hectares.

Once fully operational, the facilities will produce 150,000 tonnes of refined copper and 5,000 tonnes of refined cobalt a year. The average site cost per pound of copper over the life of the project is predicted to be US$0.22 (after cobalt credit), placing the Company among the world's lowest cost producers.

## Rehabilitation plans

The Kamoto underground mine requires only limited work to restore production, including refurbishment of the existing pumping infrastructure and some ventilation and winder components. Operations can begin almost immediately once mining equipment arrives onsite. Mining will be a combination of the historical room and pillar system, sub level caving and longhole retreat stoping.

Following waste stripping, production will begin in the Musonoie-T17 open pit mine and will continue there for approximately four years while the Mashamba East pit is being dewatered and prepared for mining. Open pit mining will also be carried out in both the Mashamba West and Dikuluwe pits in later years once they have been dewatered.

Work required in the Kamoto concentrator consists primarily of general rehabilitation of the plant and mills. New piping and a new instrumentation system will be installed and the electrical system upgraded. Flotation cells will be refurbished in phases one and two and new cells purchased beginning in phase three. Three mills will initially be relined and refurbished. As production increases with each phase, additional mills will be refurbished and brought online. In addition, a new Kamoto-to-Luilu concentrate pipeline and a new tailings facility will be constructed.

*(left)*
**Electrowinning cells being repaired**

*(right)*
**A rebuilt mill sump is lowered into place**

> **"By the end of the year, over 1,700 employees were working on site, which had a substantial positive impact on the local community."**

In phase one, the Luilu metallurgical plant will undergo general refurbishment to restore it to a reliable operating state. This will consist of repairing or replacing pumps, piping systems, tanks and related infrastructure, and the electrical and instrumentation system. While the plant flow sheet will be retained, new filter technology will replace most of the existing drum filters. A tailings facility will also be constructed. Phases two and three will see the introduction of new roasters and additional filters in conjunction with the ongoing repair and upgrading of the existing plant.

## Progress on track in 2006

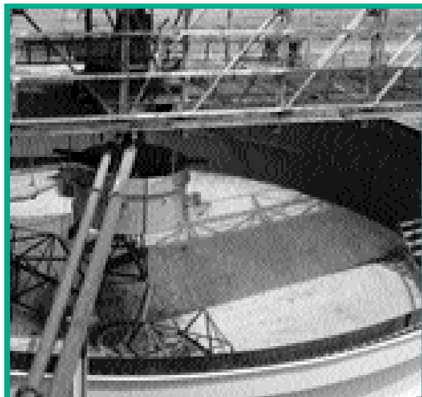
The feasibility study was completed in April 2006. A National Instrument 43-101 compliant Technical Report was also issued that month. The study results closely mirrored the pre-feasibility study - namely that production would be restored over four phases of approximately one year each, with the original flow sheet retained where practical and new technology introduced as required.

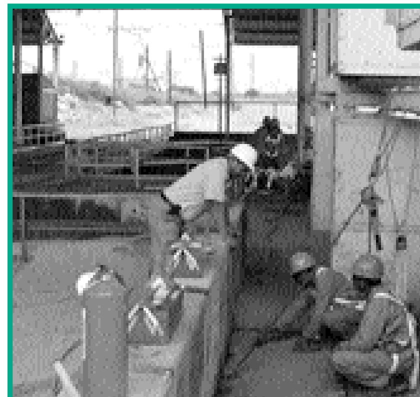
Katanga Mining Limited took over the Kolwezi site on June 27, 2006 and work began in July on clean up and organizing the detailed engineering and procurement in order that construction could get under way aggressively early in 2007.

Site preparation included the removal of thousands of cubic meters of debris, especially from the Luilu metallurgical complex. Retrofit of the grinding and flotation sections in the phase one section of the Kamoto concentrator, and teardown and some retrofit of concentrate handling, roasting, filtration, and settling sections of Luilu, were all advanced during the second half of 2006.

Other site work included making 29 houses habitable and, working in conjunction with other mining companies in the area, refurbishing 130 kms of roads. By the end of the year, over 1,700 employees were working on site, which had a substantial positive impact on the local community.

In August, the primary contracts required to complete the phase one engineering procurement and construction management (EPCM) work were awarded. As clean up work progressed, additional detailed engineering examinations were carried out. As a result of this, minor equipment and flow sheet changes were made, but the concepts and costs laid out in the feasibility study were essentially retained.





*(left)*
**A refurbished thickener in the concentrate receiving area of Luilu**

*(right)*
**Work on Kamoto crusher**

Some of the equipment and facilities were found to be in better condition than expected. For example, more detailed inspection of the second roaster in the concentrator resulted in the decision to rehabilitate it during phase one, providing a backup to the main roaster and offering the potential to increase production during phase one.

By October, orders were being placed for all major, long-lead time equipment. By year end, all of the critical suppliers or orders for items such as the underground equipment fleet, construction camp, filters, pumps and piping had been identified or committed.

In November, the Company developed the mechanical and electrical contractor construction packages required for the project. Site visits and tenders for this work were completed by December and these packages were awarded in January for mobilization in February. Significant supplier interest in tenders has given Katanga Mining Limited the ability to compare multiple prices and alternatives, to enable the selection of the most competitive option.

## Path to production in 2007

This is a critical year for Katanga Mining Limited as the Company prepares to hit the deadlines in its rehabilitation of the mine complex to enable first copper to be shipped by the end of the year.

Work carried out in 2006 has placed the Company in a strong position to achieve this, with major equipment, including the mining fleet, arriving on site in the first quarter and reconstruction beginning in earnest.

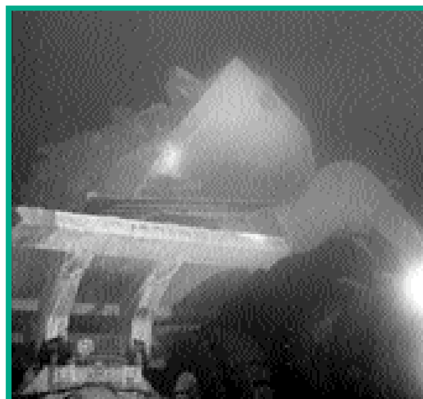
Key milestones during the year include:

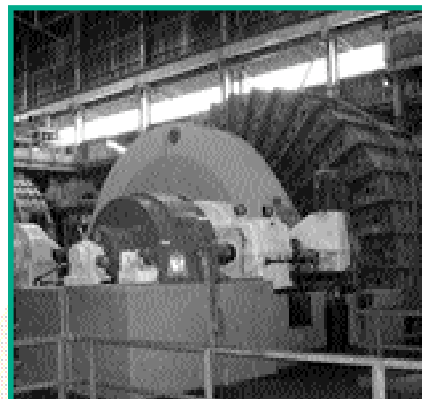
- April 2007 - start of mining in both the underground mine and Musonoie-T17 open pit mine
- July 2007 - Kamoto concentrator begins operation
- September 2007 - refining begins in the Luilu metallurgical plant
- December 2007 - first copper shipped.

*A site map and overview of the mines and plants is shown on the inside back cover.*

*(left)*
**Ore being loaded underground**

*(right)*
**One of the two cascade mills retrofitted for phase one**





# Social Responsibility

Katanga Mining Limited's approach to health and safety, community and social development, and the environment is integral to the way the Company is managed.

Years of political, social and economic turmoil in the Democratic Republic of Congo have caused living standards to decline significantly. Katanga Mining Limited aims to play a role in assisting the citizens in the communities surrounding its operations to improve their living standards through long-term, sustainable social development initiatives.

When the Company assumed control of the Kolwezi site on June 27, 2006, it knew the challenges that lay ahead. The socio-economic impact report that was completed as part of the project feasibility study identified, through community consultation, numerous development needs. The most critical of these was employment. The quality of infrastructure and services, in particular health services, was also highlighted.

Clearly, the greatest short-term benefit Katanga Mining Limited can bring to the area around its operations is economic stimulation through employment. By the end of 2006, the Kolwezi operation had re-employed over 1,700 local people, injecting US$950,000 into the local economy each month. Total in-country spending for 2006 exceeded US$10.4 million.

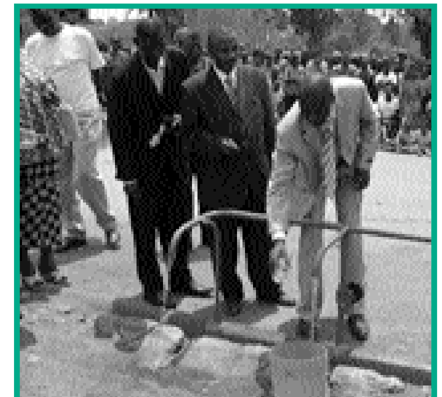
Three additional community development initiatives were undertaken in 2006. Working together with other mining companies in the area, Katanga Mining Limited refurbished 130 kms of roads, which brought economic benefits through the easier movement of goods.

The Company also supported a community initiative to bring clean running water to the village of Luilu for the first time in many years and organized a ditch and drain cleaning initiative in the community of Kapata, which will contribute to health benefits in the area through a reduction of still-water propagation of malaria.

In September, the Board of Katanga Mining Limited ratified its support for the Extractive Industries Transparency Initiative, formalizing the Company's commitment to work with the government of the DRC to ensure full transparency of all tax and royalty payments.

*(left)*
**Local roads have been refurbished to improve transport links**

*(right)*
**Luilu villagers had running water for the first time in many years**



“Katanga Mining Limited aims to play a role in assisting the citizens in the communities surrounding its operations to improve their living standards.”

## Environment

The environmental impact assessment completed as part of the project feasibility study in 2006 clearly established pre-existing site conditions and has provided a benchmark against which the Company will measure and monitor its activities.

An environmental monitoring program was instigated in early 2007 and, during the course of the year, an environmental management plan will be put in place. Newly installed equipment will apply current technology and best practices and will be operated in a way that continually targets areas for improvement.

## Health and safety

Protecting the health, safety and security of its employees and others involved in its activities is critical to Katanga Mining Limited. By the end of 2006, over 28,000 hours of health and safety training had been conducted with employees.

Upgraded safety equipment has also been purchased and distributed to employees throughout the operation, and related policies and procedures are being updated and communicated. During 2007, a health and safety management system will be introduced along with a regular audit program to ensure progressive improvements occur.

## What’s ahead for 2007

In early 2007, Katanga Mining Limited appointed a Director of Corporate Social Responsibility with the objective of accelerating progress in the areas of sustainable social and community development. A steering committee is now in place that has been mandated to guide the Company’s community consultation process and ensure the initiatives it undertakes bring sustainable benefits to both local communities and its operations.

Throughout the year, the Company will be formulating a sustainable development policy and associated procedures, drawing on a number of international standards and conventions including the International Finance Corporation’s Performance Standards, the Equator Principles and the Voluntary Principles on Security and Human Rights.

The Company will also develop and commit to targets against which it can objectively measure its performance, and produce a more comprehensive report in 2008. A committee of the board will be formalized to provide governance and oversight in the area of social responsibility.

Specific actions we will commit to for 2007 include:

- Further public consultation to be completed as part of the Environmental and Social Impact Assessment
- Malaria control, and HIV/AIDS awareness and control, programes to begin
- Agriculture project implemented to provide much needed produce to the Kolwezi area
- Sanitation projects to be completed in Luilu and Kolwezi similar to that in the Kapata community.

# Board and Corporate Governance

## Board Members

**Robert Buchan** (+)
*Non-executive Chairman*

Executive Chairman of Quest Capital Corp.

**Arthur H. Ditto**
*President, Chief Executive Officer & Director*

**George A. Forrest**
*Non-executive Vice Chairman*

Chairman and Chief Executive Officer
of the Forrest Group.

**Malta D. Forrest**
*Director*

Various executive positions with companies
of the Forrest Group.

**Mabunda Mudiayi** (#)
*Director*

Minister of Portfolio in the Government
of the Democratic Republic of Congo.

**Jean-Claude Masangu Mulongo** (#)
*Director*

Governor of the Central Bank of the Democratic
Republic of Congo.

**Thomas Pladsen** (+)
*Director*

Chief Financial Officer of Andina Minerals Inc.

**Robert Wardell** (#)
*Director*

Vice-President, Finance & Chief Financial Officer
of Victory Nickel Inc.

**Key:**

# Audit committee
+ Corporate governance and compensation committee

Katanga Mining Limited's Board of Directors is committed to corporate governance standards consistent with best practices in the resource based sector.

### Board Committees

The Board currently has two committees - audit and corporate governance/compensation - the mandates of which are consistent with best practices.

The role of the audit committee is to assist the Board in fulfilling its financial oversight responsibilities, serving as an independent and objective party to monitor the quality, integrity, and legal and regulatory compliance, of the Company's financial statements and other financial information. It also oversees the qualifications and independence of the independent external auditor and the internal audit procedures.

The role of the corporate governance and compensation committee is to develop the Company's policy on executive and senior management remuneration and determine directors' remuneration packages, assist the Board in establishing corporate governance policies, and identify Board members and review the composition and functioning of the Board.

In 2007, we will look to establish a committee to provide governance and oversight in the area of corporate social responsibility.

### Joint Venture Representation

In addition to the Katanga Mining Limited Board meetings, the Board of Kamoto Copper Company also meets a number of times a year. The Board includes representatives from Gécamines, Katanga Mining Limited's joint venture partner.

### Code of Ethics

Katanga Mining Limited has a Code of Ethics consistent with best practices in the mining sector, which documents the principles of conduct and ethics to be followed by employees, officers, directors, contractors and consultants of the Company.

The following discussion and analysis is management's assessment of the results and financial condition of Katanga Mining Limited ("Katanga" or the "Company") and should be read in conjunction with its audited consolidated financial statements for the year ended December 31, 2006 and 2005. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. **All dollar amounts unless otherwise indicated are in United States dollars.** The information is presented as of March 27, 2007. Katanga's common share warrants and notes trade on the TSX Exchange under the symbols "KAT", "KAT.WT" and "KAT.NT" respectively. Its most recent filings are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the internet at www.sedar.com.

The "Independent Qualified Person" under the guidelines of National Instrument 43-101 of the Canadian Securities Administrators for the Company's mineral properties in the following discussion and analysis is Richard Dye, the Senior Vice President, Technical Services of Katanga Mining Limited and a Qualified Person under National Instrument 43-101.

Katanga is engaged in the acquisition and development of mineral properties and is currently focused on the refurbishment and rehabilitation of the Kamoto/Dima mining complex in the Democratic Republic of Congo. Katanga was originally incorporated under the laws of Bermuda on October 7, 1996 under the name New Inca Gold Ltd. On July 8, 2004, the Company changed its name to Balloch Resources Ltd. On November 30, 2005, the Company's name was changed to Katanga Mining Limited.

On December 22, 2005, Katanga purchased a 23.33 per cent ownership interest in Kinross Forrest Limited ("KFL") from Kinross Gold Corporation for CDN$5.45 million.

On June 27, 2006, the Company acquired the remaining shares, 76.67%, of KFL which it did not own in exchange for its issuance of 35,001,500 common shares and a cash payment of $800,000. As a result of this transaction, the former shareholders of KFL acquired control of Katanga and this transaction has been accounted for as a reverse takeover ("RTO"). Under this basis of accounting, KFL has been deemed to be the acquirer and, accordingly, the Company is considered to be a continuation of KFL with the net assets of Katanga as of June 27, 2006 deemed to have been acquired by KFL.

## 1. Overview of Performance

### Historical Activities

In prior years, Katanga's primary asset was a 10% net profit interest in the El Molino Project located in a historic gold mining area near Cajamarca in the Yanacocha mining district of northeastern Peru. The concession is owned by Northern Peru Copper Corp. The El Molino Project lies contiguous to the El Galino concession. Katanga and its Australian partner, AKD Ltd. ("AKD"), each owned a 50% interest in the El Molino Project. In 2004, Katanga and AKD agreed to sell their interest in the El Molino Project to Lumina Copper Corp. ("Lumina"). Lumina paid each partner cash consideration of $150,000 and a net profits interest of up to 10% depending on the timing of production from the concession. The net profits interest converted to a 0.5% Net Smelter Return royalty at the end of 2006. In May 2005 Lumina was restructured into four separate companies. The company that now holds the interest in the El Molino Project is Northern Peru Copper Corp.

## Kamoto Joint Venture

In February 2004, KFL entered into a joint venture agreement (the "Kamoto Joint Venture Agreement") with La Générale des Carrières et des Mines ("Gécamines"), a state owned and operated mining enterprise of the Democratic Republic of Congo ("DRC"), to rehabilitate the Kamoto Joint Venture assets which include exploration and mining properties, the Kamoto concentrator, the Luilu metallurgical plant, the Kamoto underground mine and various oxide open pit resources in the Kolwezi district of the DRC (the "Kamoto Joint Venture Assets"). The Kamoto Joint Venture received the approval of the Conseil des Ministres du Government de Transition of the DRC (the Congolese Government) on July 15, 2005 and was publicly ratified by a presidential decree issued on August 4, 2005.

The Kamoto Joint Venture Agreement required that a feasibility study be delivered by KFL to Gécamines. On April 17, 2006, a feasibility study was delivered to Gécamines by KFL in accordance with the terms of the Kamoto Joint Venture Agreement.

Katanga, through its subsidiary KFL, and Gécamines incorporated and organized a DRC company, known as Kamoto Copper Company SARL ("KCC"), to hold, redevelop, rehabilitate and operate the Kamoto Joint Venture Assets. KCC was formed and the first shareholders' meeting was held on October 17, 2005. KCC is owned 75% by KFL and 25% by Gécamines. KCC has a six person board, four members of which are nominees of KFL.

Gécamines has granted to KCC exclusive rights to take possession of and use all of the real and personal property constituting the Kamoto Joint Venture Assets. KCC must make lease payments to Gécamines equal to 2% of the net sales proceeds realized during the first three annual periods and 1.5% of the net sales proceeds realized during each annual period thereafter. Katanga must contribute the technical expertise and the necessary capital for the expansion of the Kamoto Joint Venture Assets. The capital is provided through interest bearing advances to KCC. It is anticipated that Katanga will receive repayment of the capital and interest thereon on a preferential basis.

On June 27, 2006, an official signing ceremony was held at the Kamoto mine site to commemorate the formation of the Kamoto Joint Venture and transfer of the Kamoto Joint Venture Assets from Gécamines to KCC.

## Financings

Prior to the RTO transaction described above, on October 6, 2004, Katanga completed a private placement financing under which it raised gross proceeds of CDN$1.125 million by issuing 4.5 million units at a price of CDN$0.25 per unit. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. Each whole Common Share purchase warrant entitled the holder to acquire one additional Common Share at a price of CDN$0.35 per share until October 6, 2006.

On October 19, 2005, Katanga completed a private placement of 14 million subscription receipts of the Company, at a price of CDN$1.25 per subscription receipt for gross proceeds of CDN$17.5 million. Each subscription receipt entitled the holder to receive one Katanga share without payment of any additional consideration. The gross proceeds of the offering were held in escrow and were released to the Company on December 13, 2005 upon satisfaction of certain escrow release conditions. The Company paid the agents a commission equal to 6.0% of the gross proceeds of the offering. In addition, the Company issued to the agents compensation warrants to purchase in aggregate 560,000 Katanga shares. The compensation warrants were exercisable for 12 months following the closing of the offering at an exercise price of CDN$1.45 per share. All of the compensation warrants have been exercised.

On May 2, 2006, the Company closed a financing (the "Katanga Financing") which included the exercise of the underwriters' option. The Company received aggregate gross proceeds of CDN$152,250,000. A total of 21,000,000 subscription receipts were issued at a price of CDN$7.25 per subscription receipt. Each subscription receipt entitled the holder to acquire one Katanga share without payment of further consideration. The gross proceeds of the offering less the estimated out-of-pocket costs and expenses of the underwriters were held in escrow and were released to the Company on June 27, 2006 upon satisfaction of certain escrow release conditions, including completion of the RTO. The Company paid the agents a commission equal to 5% of the gross proceeds of the offering.

On November 20, 2006, the Company completed an offering of units ("Units") in the aggregate amount of CDN$115,000,000 which included the exercise by the underwriters of their option to purchase an additional CDN$15,000,000 of Units. Each Unit consisted of a CDN$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants ("Warrants"). The Notes will mature on November 30, 2013, with an annual interest rate of 14%. Interest payable on the Notes from November 20, 2006 to June 30, 2007 will be capitalized and is payable on maturity, with cash interest payments commencing January 1, 2008. Each Warrant entitles the holder to purchase one common share of the Corporation at anytime on or before November 20, 2011 at a price of CDN$8.50 per Common Share. The Notes and Warrants commenced trading on the TSX on November 20, 2006 under the symbols KAT.NT and KAT.WT, respectively.

The Company is using the net proceeds of both the Katanga Financing and the Unit Offering to continue the refurbishment and development of the Kamoto Joint Venture Assets and for general corporate purposes including working capital.

## 2. Selected Annual Information

| **Selected Annual Information** | **2006** | **2005** | **2004** |
|---|---|---|---|
| Interest income | $2,934,638 | $269 | $116 |
| Administrative expenses | $6,005,526 | $6,961 | $13,171 |
| Interest expense | $1,551,868 | $ nil | $ nil |
| Net loss for the year | $4,721,236 | $6,692 | $13,055 |
| Loss per share | $0.08 | $ nil | $ nil |
| Current assets | $201,555,260 | $945,599 | $60,090 |
| Mineral interests | $35,426,129 | $2,383,932 | $ nil |
| Other property, plant and equipment | $6,421,307 | $ nil | $ nil |
| Total assets | $250,079,780 | $3,589,531 | $60,090 |
| Current liabilities | $9,648,929 | $1,088,584 | $63,145 |
| Debentures payable | $93,496,963 | $ nil | $ nil |
| Total liabilities | $103,145,892 | $1,088,584 | $63,145 |
| Cash dividends declared | $ nil | $ nil | $ nil |

There were no sales, operating revenues or cash dividends declared for the periods presented.

## Review of Annual Operations

KFL had limited operations in 2004 and the first two quarters of 2005, its only activity being the signing of the Kamoto Joint Venture Agreement with Gécamines and the Option Agreement with Katanga. After signing the Option Agreement, all expenditures were made as part of the feasibility study and were funded by Katanga. Payments of feasibility study costs in 2005 in the amount of $2,383,932 were recorded as mineral interests and the advances by Katanga for the feasibility study costs in the amount of $2,510,694 were recorded as contributed surplus.

Through the date of the RTO, June 27, 2006, all expenditures by KFL continued to be made as part of the feasibility study and were funded by Katanga, thus the Company had no material operating results for the first six months of the year ended December 31, 2006.

Phase I implementation of the feasibility study began in the second half of 2006. Administrative expenses for the year were $6,005,526, net of a foreign exchange gain of $900,821. Expenses were comprised of corporate activities, reflecting additions to the corporate office staff and relocation of the corporate office. Of this total, $1,622,852 is stock-based compensation expense relating to the issuance of both stock options and restricted stock units. Additionally, $1,551,868 of interest expense was incurred related to the Notes. These expenses were offset by interest income of $2,934,638 earned in the year on cash balances from the Katanga Financing and the Unit Offering. The net loss for the year ended December 31, 2006 was $4,721,236. Comparable expenses in 2005 were minimal, due to the Company's limited operations prior to entering into the Option Agreement.

## 3. Selected Quarterly Information

### Fiscal 2006

| | As at and for the three months ended | | | |
|---|---|---|---|---|
| | **December 2006** | **September 2006** | **June 2006** | **March 2006** |
| Interest income | $2,046,612 | $888,026 | $ nil | $ nil |
| Administrative expenses | $2,468,275 | $3,537,251 | $ nil | $ nil |
| Interest expense | $1,551,868 | $ nil | $ nil | $ nil |
| Net loss | $2,072,011 | $2,649,225 | $ nil | $ nil |
| Loss per share | $0.03 | $0.03 | $ nil | $ nil |
| Current assets | $201,555,260 | $126,164,641 | $131,565,963 | $424,422 |
| Mineral interests and other assets | $48,524,520 | $18,959,585 | $12,200,954 | $4,803,239 |
| Total assets | $250,079,780 | $145,124,226 | $143,766,917 | $5,227,661 |
| Current liabilities | $9,648,929 | $3,978,148 | $2,093,417 | $895,600 |
| Debentures payable | $93,496,963 | $ nil | $ nil | $ nil |
| Total liabilities | $103,145,892 | $3,978,148 | $2,093,417 | $895,600 |
| Cash dividends | $ nil | $ nil | $ nil | $ nil |

Fiscal 2005

| | As at and for the three months ended | | | |
|---|---|---|---|---|
| | December 2005 | September 2005 | June 2005 | March 2005 |
| Interest income | $ nil | $36 | $58 | $175 |
| Expenses | $ nil | $15 | $1,632 | $5,314 |
| Net earnings (loss) | $ nil | $21 | $(1,574) | $(5,139) |
| Earnings per share | $ nil | $ nil | $ nil | $ nil |
| Current assets | $945,599 | $81,183 | $20,745 | $8,264 |
| Mineral interests and other assets | $2,643,932 | $329,739 | $51,959 | $51,959 |
| Total assets | $3,589,531 | $410,922 | $72,704 | $60,223 |
| Current liabilities | $1,088,584 | $81,273 | $82,472 | $68,417 |
| Debentures payable | $ nil | $ nil | $ nil | $ nil |
| Total liabilities | $1,088,584 | $81,273 | $82,472 | $68,417 |
| Cash dividends | $ nil | $ nil | $ nil | $ nil |

Review of Quarterly Operations

There was no activity in KFL prior to the fourth quarter of 2004. Quarterly expenses prior to second quarter of 2006 were limited, reflecting the low level of activity in KFL until the Option Agreement was signed and the feasibility study started in the third quarter of 2005. Payments of feasibility study costs totaled $2,383,932 in 2005 and $3,858,675 in 2006.

Following the official signing ceremony on June 27, 2006, Phase I redevelopment activities as defined in the feasibility study began. Initial activities included major clean-up work across the site, further engineering assessments and mobilization of over 1,700 employees. The redevelopment project is on track and costs of $18,135,703 were capitalized in mineral interests for the three months ended December 31, 2006 and an additional $4,752,148 was added to other property, plant and equipment. Costs were also incurred during the three months ended December 31, 2006 to enhance the corporate infrastructure, including the relocation of the corporate office, and the hiring of corporate employees. These amounts were expensed as incurred.

## 4. Results of Operations

Through the date of the RTO, June 27, 2006, all expenditures by KFL continued to be made as part of the feasibility study and were funded by Katanga, thus the Company had no material operating results for the first six months of 2006.

Phase I implementation of the feasibility study continued in the fourth quarter ended December 31, 2006. Administrative expenses for the period were $2,468,275, net of a foreign exchange gain of $231,062. Administrative expenses were comprised of corporate activities and reflect further additions to the corporate office staff and relocation of the corporate office. Additionally, $1,551,868 of interest expense was incurred related to the Notes. These expenses were offset by interest income of $2,046,612 earned in the period on cash balances from the Katanga Financing and Unit Offering. As a result, the net loss for the three months ended December 31, 2006 was $2,072,011. Expenses in comparable periods in 2005 were minimal, due to the Company's limited operations prior to entering into the Option Agreement.

## 5. Liquidity and Capital Resources

Katanga's working capital at December 31, 2006 was $191,906,331 (December 31, 2005 - working deficiency of $142,985). The increase in working capital is attributable to the successful completion of the Katanga Financing of CDN$152,250,000 and proceeds of the CDN$115,000,000 Unit Offering.

Prior to December 31, 2005, KFL's working capital was limited. The deficiency at December 31, 2005 is primarily the difference between the cash advanced by Katanga and the cash paid on the feasibility study costs. As KFL had little operating activity and the costs of the feasibility study were being funded by Katanga, KFL had limited working capital requirements.

Katanga's historical working capital requirements consisted primarily of funding the feasibility study for the Kamoto Joint Venture Assets. The cost of this feasibility study was met from cash on hand. The feasibility study estimates expenditures for capital costs for Phase I of the rehabilitation of the Kamoto Joint Venture Assets of approximately $176 million and approximately $427 million for the entire redevelopment of the Kamoto Joint Venture Assets. Expenditures relating to Phase I have begun and are expected to be completed in calendar 2007. Additional financing will be required for the remaining three phases of the redevelopment of the Kamoto Joint Venture Assets. Katanga anticipates that the combination of the expenditures for the capital costs of Phase I and the working capital required to start-up production with the completion of the Phase I capital work will exhaust the Company's current cash position during the fourth quarter of 2007.

In March 2007, the Company mandated three banks as lead arrangers to arrange and underwrite a total of $260 million in project financing ("the Facility") for its Kamoto Project. The Facility is expected to include a $100 million commercial bank tranche, a $100 million Export Credit Agency tranche and $60 million from Development Funding Agencies. Each of the banks has obtained approval to proceed on this basis, subject to satisfactory due diligence and documentation. It is expected that the Facility will close during the second quarter of 2007, will be available for drawdown in the third quarter of 2007 and will be sufficient to cover the additional financing requirements for the remaining three phases of the $427 million capital program to redevelop the Kamoto Joint Venture Assets. However, there is no assurance that Katanga will be successful in obtaining this financing as and when needed.

Katanga does not have any off-balance sheet arrangements.

## 6. Contractual Obligations and Commitments

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

The Company is obligated under the terms of an operating lease for minimum annual rental payments of $955,000 for a period of five years, commencing September 19, 2006 with an option to renew for a further five years.

The $427 million capital program for the redevelopment is expected to be spent over the next four years. The initial phase is expected to be completed in 2007 and to cost $176 million. Phases II, III and IV are estimated to be $96 million, $105 million and $50 million, respectively. Each of these phases is expected to last one calendar year beginning January 2008. The Company has contractually committed $110 million of the Phase I estimate through March 27, 2007. Katanga has also entered into an engineering contract with a vendor for the design of two 400 tonne per day industrial copper concentrate roasters. The initial roaster to be built is part of Phase II of the redevelopment plan and the second roaster to be built is part of Phase III. The contract for the design of these roasters is for $2 million.

## 7. 2007 Outlook

Katanga expects to produce and ship copper by the end of 2007. The focus during the year will be to complete the capital program for Phase I of the rehabilitation of the Kamoto Joint Venture Assets estimated to cost $176 million. Key milestones during the year include:

- April 2007 - start the mining of both the Kamoto underground mine and Musonoie-T17 open pit mine
- July 2007 - Kamoto concentrator begins operation
- September 2007 - refining begins in the Luilu metallurgical plant
- December 2007 - first copper shipped.

As part of the rehabilitation process, Katanga will also be focusing on building a site organization capable of safe, efficient and environmentally responsible operation of all mines and plants. A key overall component of this rehabilitation is the upgrading of the community services and infrastructure in and around the site.

Katanga expects to close and begin drawing from the Facility during 2007 which will provide all of the necessary funds to complete all four phases of the estimated $427 million redevelopment of the Kamoto Joint Venture Assets.

## 8. Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include Katanga's estimate of recoverable value on its investment in the redevelopment of the Kamoto Joint Venture Assets, fair value estimates for stock options and warrants, and estimated lives of depreciable assets. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of Katanga's control.

Katanga's recorded value of its mineral interests associated with the redevelopment of the Kamoto Joint Venture Assets is based on historical costs that are expected to be recovered in the future. Katanga's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. Katanga is in an industry that is exposed to a number of risks and uncertainties, including political risk, exploration risk, development risk, commodity price risk, operating risk, ownership risk, funding risk, currency risk and environmental risk. Bearing these risks in mind, Katanga has assumed reasonable world commodity prices will be achievable, as will costs used in studies for projected construction and mining operations. All of these assumptions are potentially subject to significant change, which are out of Katanga's control, however such changes are not determinable. Accordingly, there is always the potential for a material adjustment to the value assigned to these assets.

The fair value of the stock options and warrants is calculated using an option pricing model that takes into account the exercise price, the expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield and the risk free interest rate for the term of the option.

## 9. Outstanding Share Data

### Summary of Outstanding Securities

On July 8, 2004, Katanga consolidated its common shares on a ten-for-one basis. The information below reflects the consolidation of the common shares on a ten-for-one basis.

(a) Authorized: 1,000 common shares, par value $12.00 each, and 100,000,000 common shares, par value $0.10 each.

(b) Issued:

| | **Number of Shares** |
|---|---:|
| **Balance - December 31, 2003 and December 31, 2004** | 5,750,975 |
| Issued for cash | 14,000,000 |
| Exercise of warrants | 412,500 |
| **Balance - December 31, 2005** | 20,163,475 |
| Exercise of warrants | 1,747,500 |
| Issued for cash | 21,000,000 |
| Exercise of options | 125,000 |
| Common share adjustment | 1 |
| Shares issued to acquire KFL | 35,001,500 |
| **Balance - December 31, 2006** | 78,037,476 |
| Outstanding options exercisable at an average of CDN$6.90 per share and expiring December 17, 2011 | 2,190,000 |
| Outstanding options exercisable at an average of CDN$6.86 per share and expiring January 29, 2012 | 125,000 |
| Outstanding warrants exercisable at CDN$8.50 per share and expiring November 20, 2011 | 4,600,000 |
| **Fully diluted shares outstanding - March 27, 2007** | 84,952,476 |

## Stock Options

The Company has a stock option plan under which stock options may be granted to the Company's directors, senior officers, employees, consultants and consultant companies. The stock option plan: (a) provides that the number of common shares reserved for issuance, within a one year period, to any one optionee, shall not exceed 5% of the outstanding common shares; (b) provides the maximum number of common shares reserved for issuance pursuant to options granted to insiders may not exceed 10%; (c) generally provides for a maximum vesting period of 18 months; (d) contains other provisions to ensure the stock option plan is compliant with stock exchange regulations.

On January 18, 2006, the Company granted an aggregate of 205,000 options, of which all were granted to directors and officers. The options are exercisable at CDN$4.10 and will expire on January 17, 2011. On April 19, 2006, the Company granted an aggregate of 850,000 options of which all were granted to officers. The options are exercisable at CDN$7.40 and will expire on April 18, 2011. On July 10, 2006, the Company granted 185,000 options, all of which were granted to an officer. On July 7, 2006, the Company granted an aggregate of 400,000 options, all of which were granted to directors. On December 18, 2006, the Company granted an aggregate of 675,000 options to an officer and employees at an exercise price of CDN$7.30 which will expire December 17, 2011. In January 2007, the Company granted an aggregate of 125,000 options to employees and a consultant of the Company at exercise prices ranging from CDN$6.61 to CDN$7.20 for a period of five years.

The Company has requested its shareholders, at the upcoming annual meeting of shareholders which is scheduled to take place May 10, 2007, to approve certain amendments to its stock option plan. The proposed amendments will (i) modify the Stock Option Plan to be consistent with the policies of the TSX; (ii) change the method by which the directors fix the exercise price of options granted pursuant to the Stock Option Plan such that the minimum exercise price will be the volume weighted average trading price of the Common Shares on the TSX for the five (5) trading days immediately preceding the relevant date; (iii) change the Stock Option Plan from a "rolling plan" to a "fixed number plan" and limit the maximum number of Options that can be granted under the Stock Option Plan to 3,500,000 Options; (iv) permit the directors to make amendments to the Stock Option Plan that, in their sole judgment are required, without obtaining the approval of the shareholders of the Company, except for (a) reductions in the exercise price of Options granted to insiders of the Company, (b) amendments to the maximum number of Options that can be granted under the Stock Option Plan to acquire Common Shares, and (c) amendments to extend the terms of outstanding Options granted pursuant to the Stock Option Plan; and (v) automatically extend the expiry date of options that expire during a Company imposed black-out period.

## 10. Other Information

### Changes in Accounting Policy

There have been no changes in accounting policies since Katanga's most recently completed financial year.

### Material Transactions

There were no material transactions during the period, other than as described herein.

### Use of Financial Instruments

Katanga has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instrument affecting Katanga's financial condition and results of operation is currently its cash.

### New Accounting Pronouncements

In January 2005, The Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income; Handbook Section 3251, Equity; Handbook Section 3855, Financial Instruments - Recognition and Measurement; and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for companies fiscal years beginning October 1, 2006. The Company is currently assessing the impact of these new standards on its consolidated financial statements.

### Related Party Transactions

Katanga entered into the Option Agreement and the Option Amendment Agreement and has exercised the Option Amendment Agreement (upon approval of the shareholders of Katanga) and had other transactions with KFL during the first six months of 2006, as described herein, prior to acquiring all the shares of KFL. The majority of the former shareholders of KFL are also shareholders of Katanga. In December 2005, these shareholders also became officers and/or directors of Katanga.

Kamoto Operating Limited ("KOL"), a company incorporated pursuant to the laws of the DRC, has been appointed to act as the operator of the Kamoto Joint Venture Assets pursuant to the Kamoto Joint Venture Agreement and an operating agreement ("Operating Agreement") between KOL and the Company's subsidiary, KCC, on November 2, 2005. Current shareholders and directors of the Company are the owners of KOL. The Operating Agreement establishes the terms and conditions pursuant to which KOL as operator will provide services to KCC in the planning and conduct of exploration, development, mining, processing and related operations with respect to the Kamoto Joint Venture Assets, including a management fee to be provided to KOL. During the year ended December 31, 2006, management fees totaling $875,707 (2005 - $nil) were incurred and accrued to KOL.

KOL, on behalf of KCC, engaged entities owned by one of its directors for the sourcing and provision of goods and services, including airplanes, construction and other resources. During 2006 a total of $1,560,591 was paid for these items and an additional financing fee of $48,195 was incurred on advances provided.

KOL, on behalf of KCC, entered into an agreement for the mining of one of its open pit ore bodies with an entity owned by one of its directors. The mining is expected to commence in April 2007 and continue through 2011. No expenditures were incurred during the three months ended September 30, 2006; however, a prepayment in the form of a mobilization fee of $2,520,000 was paid in October 2006.

A portion of the commission and compensation warrants related to the CDN$17.5 million private placement completed in December 2005 were paid to a limited market dealer subsidiary of a company, two directors of whom are also directors of Katanga.

Other than these transactions, Katanga has not had any transactions with related parties during the year ended December 31, 2006.

## Disclosure Controls

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions impacting disclosure with respect to the fiscal year ended December 31, 2006. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. The management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

The Company hired an internal auditor in November 2006 in order to put more emphasis on its internal controls. During 2006 the Company enhanced its internal controls over financial reporting as it expanded its operations, and is continuing to do so in anticipation of initial production.

## Risk Factors

Katanga is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. The risks include, but are not limited to, limited operating history, speculative nature of mineral exploration and development activities, operating hazards and risks, mining risks and insurance, foreign operations, environmental and other regulatory requirements, competition, stage of development, fluctuations in commodity prices, currency risk, conflicts of interest, reliance on key individuals and enforcement of civil liabilities.

There are risks specific to Katanga, including: the fluctuations in metal prices as Katanga does not at present hedge metal prices; the provision of power to the project; improvement in the rail and roads is not guaranteed and may impact the delivery of materials into the site and the ability to timely sell the metal production; Katanga's ability to complete the Facility; Katanga's operations and activities are subject to environmental risks; Katanga is subject to international operations and regulatory risks, specifically the political stability of the Democratic Republic of Congo; and HIV/AIDS and other infectious diseases may have a negative effect on the work force and increase medical costs.

The Company's risk factors are discussed in detail in the Company's AIF which are available on SEDAR at www.sedar.com and should be reviewed in conjunction with this document.

## Forward-Looking Statements

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

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

# Management's Responsibility for Financial Reporting

Katanga Mining Limited
(A Development Stage Entity)

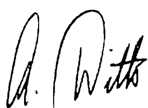
The accompanying consolidated financial statements of Katanga Mining Limited were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including 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 systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

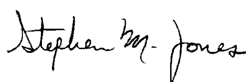
The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committees are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. 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.

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.



Arthur H. Ditto
*President and*
*Chief Executive Officer*

*March 27, 2007*



Stephen M. Jones
*Senior Vice President and*
*Chief Financial Officer*

*March 27, 2007*

# Auditors' Report

**To the Shareholders of Katanga Mining Limited**

We have audited the consolidated balance sheet of Katanga Mining Limited as at December 31, 2006 and the consolidated statements of operations and deficit and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the ove rall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements.

PricewaterhouseCoopers LLP

*Chartered Accountants*

Toronto, Ontario

*March 27, 2007*

# Consolidated Financial Statements

Katanga Mining Limited
(A Development Stage Entity)

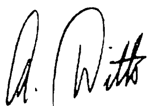
## Consolidated Balance Sheets

(Expressed in United States Dollars)

| December 31, | 2006 | 2005 |
|---|---|---|
| **Assets** | | (Note 1) |
| Current | | |
| Cash and cash equivalents | $ 196,985,623 | $ 944,737 |
| Inventory | 176,583 | – |
| Prepaid expenses and other current assets | 4,393,054 | 862 |
| | 201,555,260 | 945,599 |
| Property, plant charge and equipment (Note 4) | 41,847,436 | 2,383,932 |
| Mobilization charge (Note 8) | 2,520,000 | – |
| Advances to related party | – | 260,000 |
| Deferred financing costs (Note 5) | 4,157,084 | – |
| | $ 250,079,780 | $ 3,589,531 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 8,813,568 | $ 1,088,584 |
| Restricted stock units (Note 7) | 835,361 | – |
| | 9,648,929 | 1,088,584 |
| Debentures payable (Note 5) | 93,496,963 | – |
| | 103,145,892 | 1,088,584 |
| **Shareholders' Equity** | | |
| Capital stock (Note 6) | 7,815,648 | 10,000 |
| Warrants (Note 6) | 6,736,405 | – |
| Contributed surplus (Note 6) | 137,122,818 | 2,510,694 |
| Deficit | (4,740,983) | (19,747) |
| | 146,933,888 | 2,500,947 |
| | $ 250,079,780 | $ 3,589,531 |

Nature of Operations - note 1

The accompanying notes constitute an integral part of these financial statements.



Arthur H. Ditto
*Director*

Robert G. Wardell
*Director*

# Consolidated Statements of Operations and Deficit

(Expressed in United States Dollars)

| For the years ended December 31, | 2006 | 2005 |
|---|---|---|
| Administrative expenses | | (Note 1) |
| General and administrative | $ 4,045,781 | $ 2,569 |
| Professional fees and consulting | 1,237,714 | 4,392 |
| Stock-based compensation | 1,622,852 | – |
| Foreign exchange gain | (900,821) | – |
| Loss for the year before the following: | (6,005,526) | (6,961) |
| Debenture interest | (1,551,868) | – |
| Interest income | 2,934,638 | 269 |
| Loss for the year before income taxes: | (4,622,756) | (6,692) |
| Provision for income taxes (Note 11) | 98,480 | – |
| Net loss for the year | (4,721,236) | (6,692) |
| DEFICIT, beginning of year | (19,747) | (13,055) |
| DEFICIT, end of year | $ (4,740,983) | $ (19,747) |
| Basic and diluted loss per share | $ (0.08) | $ 0.00 |
| Weighted average number of common shares outstanding | 60,677,494 | 35,001,500 |

The accompanying notes constitute an integral part of these financial statements.

Katanga Mining Limited
(A Development Stage Entity)

# Consolidated Statements of Cash Flows

(Expressed in United States Dollars)

| For the years ended December 31, | 2006 | 2005 |
|---|---|---|
| **Cash and cash equivalents provided by (used in):** | | (Note 1) |
| **Operating Activities** | | |
| Net loss for the year | $ (4,721,236) | $ (6,692) |
| Items not affecting cash: | | |
| Stock-based compensation | 1,622,852 | – |
| Restricted stock units | 835,361 | – |
| Debenture interest expense | 1,551,868 | – |
| Foreign exchange gain | (230,266) | – |
| Changes in non-cash working capital: | | |
| Inventory | (176,583) | – |
| Due to shareholders | – | 30,000 |
| | 1,117,964 | 23,308 |
| **Investing Activities** | | |
| Additions to property, plant and equipment | (30,669,922) | (1,389,355) |
| Repayments from (advances to) related party | 260,000 | (260,000) |
| Mobilization charge | (2,520,000) | – |
| | (32,929,922) | (1,649,355) |
| **Financing Activities** | | |
| Capital contributions | 3,708,675 | 2,510,694 |
| Issue of common shares, net of issue costs | 129,778,977 | – |
| Net cash acquired in RTO transaction (Note 2) | 1,846,478 | – |
| Net proceeds from unit offering (Note 5) | 94,524,416 | – |
| | 229,858,546 | 2,510,694 |
| **Increase in Cash and Cash Equivalents** | 195,810,660 | 884,647 |
| **Cash and Cash Equivalents,** beginning of year | 944,737 | 60,090 |
| **Effect of Exchange Rate Changes on Cash Held in Foreign Currencies** | 230,226 | – |
| **Cash and Cash Equivalents,** end of year | $ 196,985,623 | $ 944,737 |
| **Supplementary Cash Flow Information** | | |
| Cash paid for interest | $ – | $ – |
| Cash paid for income taxes | $ – | $ – |

The accompanying notes constitute an integral part of these financial statements.

Katanga Mining Limited
(A Development Stage Entity)

Years ended December 31, 2006 and 2005
(Expressed in United States Dollars)

## 1. Nature of Operations

Katanga Mining Limited ("Katanga" or the "Company"), a development stage entity, was incorporated under the laws of Bermuda on October 7, 1996 and is engaged in the acquisition and development of mineral properties. On November 30, 2005, the Company changed its name to Katanga Mining Limited.

On December 22, 2005, Katanga purchased a 23.33 per cent ownership interest in Kinross Forrest Limited ("KFL") from Kinross Gold Corporation for CDN$5.45 million.

On June 27, 2006, the Company acquired the remaining shares, 76.67%, of KFL which it did not own in exchange for its issuance of 35,001,500 common shares and a cash payment of $800,000. As more fully described in Note 2, as a result of this transaction, the former shareholders of KFL acquired control of Katanga and this transaction has been accounted for as a reverse takeover ("RTO"). Under this basis of accounting, KFL is the acquirer and, accordingly, the Company is considered to be a continuation of KFL with the net assets of Katanga as of June 27, 2006 deemed to have been acquired by KFL. In addition, the comparative balance sheet at December 31, 2005 and the results of operations for the year ended December 31, 2005, and for the period from January 1, 2006 to June 27, 2006, are those of KFL. KFL incurred no expenses during the period prior to June 27, 2006 as all general and administrative expenses prior to the RTO transaction (see Note 2) were incurred by Katanga.

Katanga, through KCC, is engaged in the refurbishment and rehabilitation of the Kamoto/Dima mining complex in the Democratic Republic of Congo (the "Kamoto Project"). The Kamoto Project includes exploration and mining properties, the Kamoto concentrator, the Luilu metallurgical plant, the Kamoto underground mine and various oxide open pit resources in the Kolwezi district of the Democratic Republic of Congo.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has not reached commercial production. In addition to its working capital requirements, the Company currently has estimated capital requirements of $427 million (inclusive of costs incurred to date) to complete the redevelopment of the Kamoto Project. These expenditures are expected to be made over four phases with each phase designed to increase the level of production capacity. The first phase is estimated to be $176 million, bringing the assets into initial production by the end of 2007.

The Company has approximately $197 million in cash and cash equivalents at December 31, 2006. The Company's debt and equity financings to date, while substantial, are not sufficient in and of themselves to enable the Company to fund the completion of all four phases of the redevelopment. Accordingly, management is currently pursuing further financing to fund the redevelopment. As explained more fully in Note 13, the Company has mandated three banks as lead arrayers to arrange and underwrite a total of $260 million in project financing. If successfully completed, this will provide sufficient funding to complete the redevelopment.

The Company's ability to continue as a going concern is ultimately dependent upon its ability to fund its working capital, obtain the additional financing to complete the redevelopment of the Kamoto Project and, eventually, to generate positive cash flows from mining operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

## 2. Reverse Takeover Accounting

On December 12, 2005, Katanga acquired a 23.33% ownership in KFL for $4,711,232.

Pursuant to an option agreement dated July 29, 2005, as amended by agreements dated November 9, 2005 and March 15, 2006 (the "Option Agreement"), KFL granted an option to Katanga to purchase the 76.67% of the outstanding shares of KFL it did not already own, in exchange for the issuance of 35,001,500 common shares and a cash payment of $800,000 (the "RTO Transaction"). The option was exercised and the share exchange occurred on June 27, 2006. The RTO Transaction resulted in the former shareholders of KFL, other than Katanga, owning 67.01% of Katanga before the Katanga financing referred to in Note 6. Accordingly, the exchange of shares has been accounted for as an acquisition of Katanga by KFL, referred to as a "reverse takeover" ("RTO"). The agreement closed on June 27, 2006. Application of RTO accounting results in the following:

(a) KFL is deemed to be the acquirer for accounting purposes; and accordingly its assets and liabilities are included in the balance sheet at their carrying values.
(b) The balance sheet combines the Katanga assets and liabilities acquired as follows:

Net book value of assets and liabilities of Katanga at June 27, 2006

| | | |
|---|---|---|
| Cash | $ | 1,846,478 |
| Prepaid expenses and other current assets | | 10,000 |
| Initial investment in KFL | | 4,711,232 |
| Investment in KFL with respect to feasibility study costs | | 6,369,369 |
| Accounts payable and accrued liabilities | | (661,674) |
| | $ | 12,275,405 |

The fair value of Katanga's assets and liabilities other than the investment in KFL with respect to feasibility study costs approximates their net book value. No value has been allocated to the investment in KFL with respect to feasibility study costs as the actual feasibility expenditures made by KFL are already included in mineral interests.

## 3. Summary of Significant Accounting Policies

### Basis of Presentation

The consolidated financial statements are presented in United States dollars and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling financial interest. The effects of all transactions between controlled entities are eliminated.

The consolidated financial statements include the Company's wholly-owned subsidiaries and its 75% interest in Kamoto Copper Company SARL ("KCC").

### Foreign Currency Translation

The functional currency of the Company is the US dollar. The Company's foreign operations are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in operations for the current period.

## Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Significant areas where management's judgement is applied include the carrying value of mineral properties, fair value estimates for stock options and warrants, and estimated lives of depreciable assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly from these estimates.

## 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. As at December 31, 2006, the Company held $183,573,585 of its cash and cash equivalents denominated in United States dollars.

## Property, Plant and Equipment

### *Mineral Interests*

All direct costs relating to the mineral interests which 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.

Carrying values of mineral interests as reported on the balance sheet may not necessarily reflect the actual present or future value. Recovery of carrying values is dependent upon future commercial success.

Upon establishment of commercial production, carrying values of mineral interests will be amortized over the estimated life of the mine, using the units of production method based on the current estimated proven and probable reserves.

### *Other Property, Plant and Equipment*

Other property, plant and equipment is recorded at cost and amortized using the following rates and methods:

| | | |
|---|---|---|
| Access roads | 5 years | Straightline |
| Computer equipment | 3 years | Straightline |
| Computer software | 1 year | Straightline |
| Furniture and fixtures | 5-10 years | Straightline |
| Housing | 10 years | Straightline |
| Tools | 7 years | Straightline |
| Vehicles | 4-7 years | Straightline |
| Leasehold improvements | | Straightline, over the term of the underlying lease |

## Asset Retirement Obligations

The fair value of liabilities for asset retirement obligations will be recognized in the period in which they are incurred. Currently there are no asset retirement obligations. However, as the development of any project progresses, the Company will assess whether an asset retirement obligation liability ("ARO") has arisen. At the point where such a liability arises, the financial statement adjustment required will be to increase the project's carrying value and ARO obligation by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to the income each year to accrete the discounted ARO obligation amount to the final expected liability.

### Mobilization Charge

The Company has entered into an agreement for the contract mining of one of its open pit ore bodies. A payment in the form of a mobilization fee was made in 2006. This mobilization charge has been deferred and will be amortized on a unit of production basis over the life of the reserves of the ore body.

### Inventory

Inventory, which consists of consumable materials, is stated at the lower of production cost and net realizable value. Supplies and consumable materials utilized in the development of mineral properties are capitalized to mineral interests.

### Deferred Financing Costs

Deferred financing costs which consist of debenture issue costs have been deferred and are being amortized over the term of the debentures.

### Stock-Based Compensation

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

### Income Taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

### Impairment of Long-lived Assets

Long-lived assets and intangibles to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, undiscounted future cash flows expected to result from the use of the asset and its disposition are estimated and compared with the carrying values of those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at December 31, 2006.

### Loss Per Share

Basic loss per share is computed by dividing the loss 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 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 options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. Currently, the effect of potential

issuances of shares under options and warrants would be antidilutive, and accordingly basic and diluted loss per common share are the same.

### 2005 Figures

Certain of the 2005 figures have been reclassified in order to conform to the 2006 financial statement presentation.

### New Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income; Handbook Section 3251, Equity; Handbook Section 3855, Financial Instruments Recognition and Measurement; and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for companies fiscal years beginning October 1, 2006. The Company is currently assessing the impact of these new standards on its consolidated financial statements.

## 4. Property, Plant and Equipment

### Mineral Interests

Mineral interests comprise the following:

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Feasibility study costs | $ 6,242,607 | $ 2,383,932 |
| Development costs (Note 8) | 24,472,290 | – |
| Property acquisition costs | 4,711,232 | – |
| | $ 35,426,129 | $ 2,383,932 |

In February 2004, KFL entered into a joint venture agreement (the "Kamoto Joint Venture Agreement") with La Générale des Carrières et des Mines ("Gécamines"), a state owned and operated mining enterprise of the Democratic Republic of Congo (the "DRC") to rehabilitate the Kamoto Joint Venture Assets which include exploration and mining properties, the Kamoto concentrator, the Luilu metallurgical plant, the Kamoto underground mine and various oxide open pit resources in the Kolwezi district of the DRC (the "Kamoto Joint Venture Assets"). The Kamoto Joint Venture received the approval of the Conseil des Ministres du Government de Transition of the DRC (the Congolese Government) on July 15, 2005 and was publicly ratified by a presidential decree issued on August 4, 2005. The Kamoto Joint Venture is owned 75% by KFL and 25% by Gécamines.

The Kamoto Joint Venture Agreement required that a feasibility study be delivered by KFL to Gécamines. On April 17, 2006 a feasibility study was delivered to Gécamines by KFL in accordance with the terms of the Kamoto Joint Venture Agreement.

KFL and Gécamines are utilizing a DRC incorporated and organized company, Kamoto Copper Company SARL ("KCC"), owned 75% by KFL and 25% by Gécamines, to hold, redevelop, rehabilitate and operate the Kamoto Joint Venture Assets. KCC has a six person board, four members of which are nominees of KFL. Under the terms of the Kamoto Joint Venture, Gécamines has granted to KCC exclusive rights to take possession of and use all of the real and personal property constituting the Kamoto Joint Venture Assets. KFL must contribute the technical expertise and the necessary capital for the redevelopment of the Kamoto Joint Venture Assets. Also, KCC must make lease payments to Gécamines equal to 2% of the net sales proceeds realized during the first three annual periods and 1.5% of the net sales proceeds realized during each annual period thereafter.

Other Property, Plant and Equipment

| | Cost | Accumulated Amortization | December 31, 2006 | December 31, 2005 |
|---|---|---|---|---|
| Access roads | $ 611,574 | $ 138,868 | $ 472,706 | $ – |
| Computer equipment | 607,509 | 64,708 | 542,801 | – |
| Computer software | 45,351 | 22,675 | 22,676 | – |
| Furniture and fixtures | 624,600 | 59,296 | 565,304 | – |
| Housing | 44,173 | 2,945 | 41,228 | – |
| Tools | 1,468,683 | 148,895 | 1,319,788 | – |
| Vehicles | 2,830,549 | 393,799 | 2,436,750 | – |
| Leasehold improvements | 1,028,772 | 8,718 | 1,020,054 | – |
| | $ 7,261,211 | $ 839,904 | $ 6,421,307 | $ – |

## 5. Debentures Payable

On November 20, 2006, the Company closed a debenture offering of 115,000 units ("Unit Offering") for an aggregate of CDN$115,000,000. Each Unit consists of a CDN$1,000 unsecured subordinated note ("Notes") and 40 common share purchase warrants ("Warrants"). Each Warrant entitles the holder to purchase one common share of the Company anytime within five years from the closing date at CDN$8.50 per share. The Units do not trade and were separated into Notes and Warrants immediately upon issuance. The Notes bear interest at the rate of 14% per annum, payable semiannually in arrears in equal installments on January 1 and July 1 of each year, with interest payable from the closing date to June 30, 2007 capitalized and cash interest payments commencing January 1, 2008.

The Company intends to use the net proceeds of the offering to continue the refurbishment and development of the Kamoto Joint Venture Assets in the Democratic Republic of Congo and for general corporate purposes including working capital. The Notes mature on November 30, 2013.

Underwriting and transaction costs amounting to CDN$4,764,878, which were incurred in association with this debt offering, have been deferred and are being amortized over the term of the underlying debentures.

The 4,600,000 warrants issued in the Unit Offering have been fair valued using the Black-Scholes valuation model at CDN$7,728,000 using the following underlying assumptions: dividend yield 0%, expected volatility (based on pricing of warrants at time of debenture issue) 30%, risk free rate of return 4.26% and expected life of 5 years. The fair value of each stock warrant issued was CDN$1.68.

The debentures payable balance is comprised of the following:

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Debentures payable | $ 91,945,095 | $ – |
| Interest capitalized from closing date and payable on maturity | 1,551,868 | – |
| | $ 93,496,963 | $ – |

## 6. Capital Stock and Contributed Surplus

(a) Authorized
1,000 common shares, par value $12.00 each
100,000,000 common shares, par value $0.10 each

(b) Common shares issued

| | Number of Shares | Capital Stock | Contributed Surplus | Total |
|---|---|---|---|---|
| Balance at December 31, 2005 [(1)] | 10,000 | $ 10,000 | $ 2,510,694 | $ 2,520,694 |
| Additional contributions of capital during the period [(2)] | – | – | 3,858,675 | 3,858,675 |
| Shares issued in RTO Transaction [(3)] | 35,001,500 | 3,500,150 | 2,405,886 | 5,906,036 |
| Shares issued in private placement [(4)] | 21,000,000 | 2,100,000 | 127,307,842 | 129,407,842 |
| Reclassification to reflect par value of shares outstanding [(5)] | 20,922,796 | 2,095,180 | (2,095,180) | – |
| Warrants exercised during the period | 1,103,180 | 110,318 | 260,817 | 371,135 |
| Options vested during the period | – | – | 2,874,084 | 2,874,084 |
| **Balance at December 31, 2006** | **78,037,476** | **$ 7,815,648** | **$ 137,122,818** | **$ 144,938,466** |

(1) The capital stock and contributed surplus amounts at December 31, 2005 are the amounts reported by KFL, the continuing entity under reverse takeover accounting described in Note 2. KFL issued 10,000 common shares with a par value of $1 per share in 2004. Contributed surplus of $2,510,694 arose as a result of cash advances to KFL by Katanga. Pursuant to the terms of the Option Agreement, Katanga advanced funds to KFL to fund the feasibility study and other mineral property expenditures on the Kamoto Joint Venture Assets.

(2) Additional cash advances between January 1, 2006 and June 27, 2006 (the date of the RTO Transaction) were made to KFL by Katanga to fund the completion of the feasibility study.

(3) The value ascribed to the 35,001,500 common shares issued in the RTO Transaction is the fair value of Katanga's net assets (excluding advances to KFL to fund feasibility costs referred to in (1) and (2) above) on June 27, 2006, the date of the RTO Transaction, as described more fully in Note 2.

(4) Following completion of the RTO Transaction, the Company received net proceeds in the amount of $129,407,842, previously held in escrow upon the issuance of 21,000,000 subscription receipts in May 2006 at a price of $7.25 per receipt. Each subscription receipt entitled the holder to acquire one common share without payment of further consideration. Total costs of issue for this private placement amounted to $6,246,908.

(5) The stated value of the Company's capital stock has been increased and contributed surplus decreased by an equivalent amount to present capital stock at the actual par value of the common shares outstanding on June 27, 2006, the date of the RTO Transaction. This reflects 1,000 shares, par value of $12 each and the remaining shares, par value $0.10 each.

### (c) Warrants

The following table reflects the number of warrants issued by the Company.

| **2005**<br>**Expiry date** | | **Exercise price[1]** | **Outstanding December 31, 2004** | **Issued during the year** | **Exercised during the year** | **Outstanding December 31, 2005** |
|---|---|---|---|---|---|---|
| October 6, 2006 | $ | 0.35 | 2,250,000 | – | (412,500) | 1,837,500 |

| **2006**<br>**Expiry date** | | **Exercise price[1]** | **Outstanding December 31, 2005** | **Issued during the year** | **Exercised/ expired during the year** | **Outstanding December 31, 2006** |
|---|---|---|---|---|---|---|
| October 6, 2006[2] | $ | 0.35 | 1,837,500 | – | (1,837,500) | – |
| October 18, 2006 | | 1.45 | – | 560,000 | (560,000) | – |
| November 20, 2011[3] | | 8.50 | – | 4,600,000 | – | 4,600,000 |
| | | | 1,837,500 | 5,160,000 | (2,397,500) | 4,600,000 |

(1) Denominated in Canadian dollars.
(2) During the period, 1,187,500 $0.35 warrants were exercised and 650,000 expired.
(3) Fair market value assigned to warrants issued in Unit Offering using the Black-Scholes valuation model is CDN$7,728,000 ($6,736,405). These warrants were valued using the Black-Scholes valuation model using the following underlying assumptions: dividend yield 0%, expected volatility 30% (based on pricing of warrants at time of debenture issue), riskfree rate of return 4.26% and expected life of 5 years. The fair value of each stock warrant issued was CDN$1.68.

### (d) Stock Options

The following table reflects the continuity of stock options:

| | **Number of Stock Options** | | **Weighted Exercise Price per Share[1]** |
|---|---|---|---|
| Outstanding at December 31, 2004 and 2005 | – | $ | – |
| Granted during the year | 2,315,000 | | 6.75 |
| Exercised during the year | (125,000) | | 4.10 |
| **Outstanding at December 31, 2006** | **2,190,000** | **$** | **6.90** |

(1) Denominated in Canadian dollars.
In January 2006, 205,000 options were granted with an exercise price of CDN$4.10. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 80%, riskfree rate of return 3.84% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN$2.72 per option. The total fair value assigned to these options was $479,275. These options vested upon issuance.

In April 2006, 850,000 options were granted with an exercise price of CDN$7.40. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 83%, riskfree rate of return 4.23% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN$5.05 per option. The total fair value assigned to these options was $3,824,390. These options vest at a rate of 33.33% on each of January 1, 2007, 2008 and 2009, respectively.

In July 2006, 400,000 options were granted with an exercise price of CDN$6.15. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 80%, riskfree rate of return 4.38% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN$4.11 per option. The total fair value assigned to these options was $1,465,081. These options vest at a rate of 33.33% on each of July 7, 2007, 2008 and 2009, respectively.

In July 2006, 185,000 options were granted with an exercise price of CDN$6.00. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 80%, riskfree rate of return 4.36% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN$4.01 per option. The total fair value assigned to these options was $660,902. These options vest at a rate of 33.33% on each of July 10, 2007, 2008 and 2009, respectively.

In December 2006, 675,000 options were granted with an exercise price of CDN$7.30. The value assigned to these options was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 80%, riskfree rate of return 3.94% and expected maturity of 5 years. The fair value of each stock option granted averaged CDN$4.85 per option. The total fair value assigned to these options was $2,826,770. These options vest at a rate of 33.33% on each of December 18, 2007, 2008 and 2009, respectively.

The following table summarizes the stock options outstanding at December 31, 2006:

| Exercise Price per Share[(1)] | Expiry Date | Outstanding Options[(2)] |
|---|---|---|
| $4.10 | January 17, 2011 | 80,000 |
| $7.40 | April 19, 2011 | 850,000 |
| $6.15 | July 6, 2011 | 400,000 |
| $6.00 | July 9, 2011 | 185,000 |
| $7.30 | December 17, 2011 | 675,000 |
| | | 2,190,000 |

(1) Denominated in Canadian dollars.

(2) Of the 2,190,000 stock options outstanding at December 31, 2006, 2,110,000 are subject to vesting in future periods. The aggregate fair value of these unvested options is $7,457,550.

### 7. Restricted Stock Units

In April 2006, 195,000 Restricted Stock Units ("RSUs") were granted to officers of the Company. Each unit entitles the holder to one share of the Company's common stock upon vesting. The RSUs vest at a rate of 33.33% upon each of January 1, 2007, 2008 and 2009, respectively. In July 2006, 50,000 RSUs were granted to an officer of the Company, entitling the holder to one share of the Company's common stock upon vesting. On December 18, 2006, 120,000 RSUs were granted to officers and employees of the Company, entitling the holder to one share of the Company's common stock upon vesting. Both the July and December RSUs vest at a rate of 33.33% on the anniversary of the underlying grant. Upon vesting, the Company is obligated to provide a trustee with the necessary funds to enable the trustee to acquire the Company's common stock in the marketplace for the benefit of the holder. The holders of the RSUs have no rights of ownership associated with the common shares until the RSUs have vested and the common shares have been transferred to the participant. Included on the Company's December 31, 2006 balance sheet is a payable of $835,361 related to the issuance of the RSUs.

On December 15, 2006, 104,600 RSUs were granted to officers of the Company, entitling the holder to one share of the Company's common stock upon vesting. As the vesting terms are subject to a milestone based performance clause, the achievement of which is not reasonably determinable at this time, no obligation or associated expense has been recognized in these financial statements.

## 8. Related Party Transactions

Katanga entered into the Option Agreement and the Option Amendment Agreement and has exercised the Option Amendment Agreement (upon approval of the shareholders of Katanga - see note 1) and had other transactions with KFL during the first six months of 2006, as described herein, prior to acquiring all the shares of KFL. The majority of the former shareholders of KFL are also shareholders of Katanga. In December 2005, these shareholders also became officers and/or directors of Katanga.

Kamoto Operating Limited ("KOL"), a company incorporated pursuant to the laws of the DRC, has been appointed to act as the operator of the Kamoto Project pursuant to the Kamoto Joint Venture Agreement and an operating agreement ("Operating Agreement") between KOL and the Company's subsidiary, KCC, executed on November 2, 2005. Current shareholders and directors of the Company are the owners of KOL. The Operating Agreement establishes the terms and conditions pursuant to which KOL as operator will provide services to KCC in the planning and conduct of exploration, development, mining, processing and related operations with respect to the Kamoto Joint Venture Assets, including a management fee to be provided to KOL. During the year ended December 31, 2006, management fees totaling $875,707 (2005 $nil) were incurred and accrued to KOL. These fees have been capitalized to mineral interests.

During the year ended December 31, 2006, the Company engaged an entity owned by one of its directors for the sourcing and provision of goods and services including airplanes, construction and other resources. The total paid for these services was $1,560,591 (2005 $nil). In addition, a financing fee of $48,195 was paid to this entity on advances previously provided (2005 $nil). These fees have been capitalized to mineral interests

KOL, on behalf of KCC, entered into an agreement for the mining of one of its open pit ore bodies with an entity owned by one of its directors. The mining is expected to commence in April 2007 and continue through 2011. A mobilization fee of $2,520,000 was paid during the year ended December 31, 2006.

A portion of the commission and compensation warrants related to the CDN$17.5 million private placement completed in December 2005 was paid to a limited market dealer subsidiary of a company, two directors of whom at the time of the private placement were also directors of Katanga.

## 9. Commitments

The Company is obligated under the terms of an operating lease for minimum annual rental payments of $955,000 for a period of five years, commencing September 19, 2006, with an option to renew for a further five years.

The Company estimates its capital expenditures for the redevelopment of the Kamoto Project to be $427 million (inclusive of costs already incurred) over the next four years ending December 31, 2010. The project is being developed in four phases with each phase designed to increase the level of production capacity. The initial phase, expected to be completed in 2007 is estimated to be $176 million. Phases II, III and IV are estimated to be $96 million, $105 million and $50 million, respectively. Each of these phases is expected to last one year beginning in January 2008. The Company has contractually committed $110 million of the Phase I estimate through March 27, 2007. Katanga has also entered into an engineering contract with a vendor for the design of two 400 tonne per day industrial copper concentrate roasters. The initial roaster to be built is part of Phase II of the redevelopment plan and the second roaster to be built is part of Phase III. The contract for the design of these roasters is for $2 million.

## 10. Financial Instruments

At December 31, 2006, the Company's financial instruments consisted of cash and cash equivalents, prepaid expenses and other sundry assets, accounts payable and accrued liabilities and debentures payable. The Company estimates that the fair value of these financial instruments approximate the carrying values, at December 31, 2006.

## 11. Income Taxes

The following table reconciles the expected income tax recovery at the statutory income tax rate to the loss before income taxes recognized in the statements of operations:

| | 2006 | 2005 |
|---|---|---|
| Net loss before income taxes reflected in the statements of operations | $ (4,622,756) | $ (6,692) |
| Expected income tax recovery at Canadian statutory rates | $ 1,577,285 | $ (2,417) |
| Effect of differences in foreign tax rates | 13,525 | 2,417 |
| Effect of change in temporary differences not recognized | 326,496 | – |
| Permanent differences | (590,367) | – |
| Current year's losses not recognized | (1,425,419) | – |
| Provision for income taxes | $ (98,480) | $ – |

The following table reflects the future income tax assets at December 31, 2006 and 2005:

| | 2006 | 2005 |
|---|---|---|
| **Future Income Tax Assets** | | |
| Noncapital losses carried forward | $ 1,443,392 | $ – |
| Other | (5,789) | – |
| | 1,437,603 | – |
| Less: Valuation allowance | (1,437,603) | – |
| Net future tax assets | $ – | $ – |

The Company has recorded a valuation allowance in respect of taxable losses in the amount of $1,437,603 as at December 31, 2006 as it cannot be determined at this time whether it is more likely than not that the benefit associated with these losses will be realized prior to their expiry.

As at December 31, 2006, the Company had noncapital losses available for future use, expiring as follows:

| | | |
|---|---|---|
| 2007 | $ | 97,663 |
| 2008 | | 58,821 |
| 2009 | | 45,405 |
| 2010 | | 52,052 |
| 2012 and thereafter | | 4,408,770 |
| Total | | 4,662,711 |

## 12. Segmented Information

The Company is engaged in mining, exploration and development and has assets in Canada, the United Kingdom and the Democratic Republic of Congo, as described below:

| **December 31, 2006** | **Canada** | **United Kingdom** | **Democratic Republic of Congo** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 3,312,139 | $ 193,110,302 | $ 563,182 | $ 196,985,623 |
| Other Assets | 4,223,774 | 4,568,826 | 44,301,557 | 53,094,157 |
| Total Assets | $ 7,535,913 | $ 197,679,128 | $ 44,864,739 | $ 250,079,780 |

| **December 31, 2005** | **Canada** | **United Kingdom** | **Democratic Republic of Congo** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 944,737 | $ – | $ – | $ 944,737 |
| Other Assets | 260,862 | – | 2,383,932 | 2,644,794 |
| Total Assets | $ 1,205,599 | $ – | $ 2,383,932 | $ 3,589,531 |

## 13. Subsequent Event

The Company has mandated three banks as lead arrangers to arrange and underwrite a total of $260 million in project financing ("the Facility") for its Kamoto Project. The Facility is expected to include a $100 million commercial bank tranche, a $100 million Export Credit Agency tranche and $60 million from Development Funding Agencies. Each of the banks has obtained approval to proceed on this basis, subject to satisfactory due diligence and documentation. It is expected that the Facility will close during the second quarter of 2007 and will be available for drawdown in the third quarter of 2007.

The Company will use the net proceeds of the Facility to fund the redevelopment of its mine complex and for working capital as the project comes into production. If successfully completed, the Facility will provide sufficient funding to complete the redevelopment.

# Shareholder Information

## Board of Directors

**Robert Buchan**
*Non-executive Chairman*

**Arthur H. Ditto**
*President, CEO & Director*

**George A. Forrest**
*Non-executive Vice Chairman*

**Malta D. Forrest**
*Director*

**Mabunda Mudiayi**
*Director*

**Jean-Claude Masangu Mulongo**
*Director*

**Thomas Pladsen**
*Director*

**Robert Wardell**
*Director*

## Management Team

**Arthur H. Ditto**
*President, CEO & Director*

**Anu Dhir**
*Vice President, Corporate Development*

**Richard Dye**
*Senior Vice President, Technical Services*

**Stephen Jones**
*Senior Vice President & Chief Financial Officer*

**René Nolevaux**
*Senior Vice President, Operations*

**Brett Richards**
*Vice President, Human Resources*

**Allan D. Schoening**
*Senior Vice President, Corporate Affairs*

## Corporate Office

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United Kingdom

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Fax: +44 (0)20 7440 5801
Email: info@katangamining.com

**Website: www.katangamining.com**

## Stock Symbols

Toronto Stock Exchange (TSX):
**KAT.TO**
**KAT-NT.TO**
**KAT-WT.TO**

## Transfer Agent and Registrar

**Equity Transfer & Trust Company**
200 University Ave., Suite 400
Toronto, Ontario M5H 4H1

Tel: +1 416 361 0152
Fax: +1 416 361 0470

## Auditors

**PricewaterhouseCoopers LLP**
Toronto, Ontario, Canada

## Investor Relations Contact

**Anu Dhir**
Tel: +44 (0)20 7440 5822
Email: adhir@katangamining.com

## Annual General Meeting

Thursday, May 10, 2007 at 4:30 pm.
The Fairmont Royal York
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

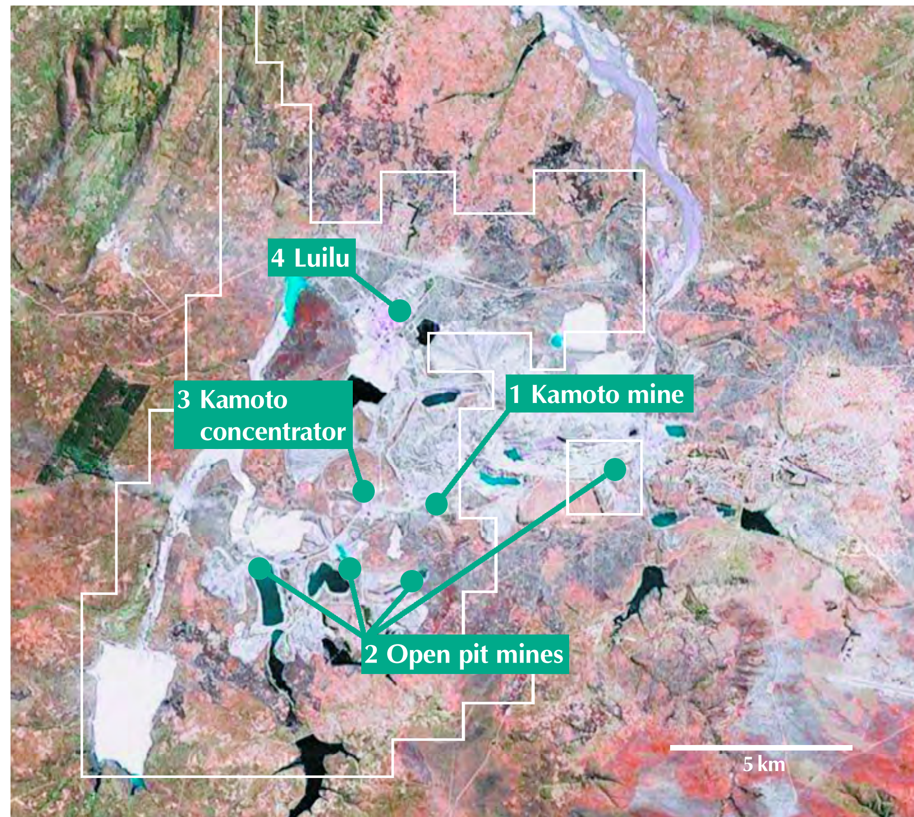
# Site Overview

1 Kamoto underground mine
- Sulphide ore mine began operation in 1969
- Average production of three million tonnes of ore a year during 1980s
- Capital expenditure: US$80.3 million.

2 Open pit mines
- Dikuluwe, Mashamba East, Mashamba West (DIMA) and Musonoie-T17 oxide ore mines
- Together produced 5.5 million tonnes of ore at peak production in 1986
- Capital expenditure: US$14.6 million.

3 Kamoto concentrator
- Four milling and flotation sections
- Design capacity of 7.5 million tonnes of ore a year
- Capital expenditure: US$55.2 million.

4 Luilu metallurgical plant
- Two roasters, leaching circuits and electrolytic cells for copper and cobalt production
- Capable of producing 175,000 tonnes of copper and 8,000 tonnes of cobalt per year
- Capital expenditure: US$150.1 million.



# Katanga Mining Limited

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