

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2006

*This discussion and analysis of financial position and results of operations of Anvil Mining Limited (the "Company") and its subsidiaries (the "Group" or "Anvil") for the second quarter and six months ended June 30, 2006 is presented as of August 8, 2006. The discussion below should be read in conjunction with the unaudited consolidated financial statements of the Company and the notes thereto for the second quarter and six months ended June 30, 2006 and the audited consolidated financial statements of the Company for the year ended December 31, 2005. The Company's consolidated financial statements and the financial data set out below have been prepared in accordance with Canadian generally accepted accounting principles.*

*Capitalized terms used and not defined below have the meanings given to them in the consolidated financial statements and the notes thereto. References below to "\$" or "US dollar" refer to United States dollar. The Company uses the US dollar as its reporting currency. Certain financial information relating to Anvil Mining Limited set out below originates in Canadian dollar ("C\$") or the Australian dollar ("A\$") and has been translated into US dollar based on prevailing exchange rates and in accordance with the basis stated in note 3 to the audited consolidated financial statements for the Company for the year ended December 31, 2005.*

*Additional information relating to the Company, including the Company's most recent annual information form is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.anvil.com.au](http://www.anvil.com.au).*

#### HIGHLIGHTS FOR THE SECOND QUARTER ENDED JUNE 30, 2006

- Fifth consecutive quarter of growth in revenues, operating profit and net earnings.
- Record Group production of 11,098 tonnes of contained copper and production of 526,513 ounces of silver supported by continued improvements in operating parameters at both Dikulushi and Kulu mines.
- Revenues from copper and copper-silver concentrate sales of \$43.0 million, up 310%.
- Operating profit (after D&A) of \$27.7 million.
- Cash flow from operations (before changes in non-cash working capital) of \$28.7 million (\$0.53 per share, on weighted average number of shares basis)<sup>1</sup>.
- Consolidated net earnings of \$22.5 million (\$0.42 per share, on weighted average number of shares basis).
- Completion of a 4,410-metre deep-drilling program at the Dikulushi mine targeting the zone at 300-400 metres below surface.
- Commencement of construction of Stage I development of the Kinsevere project comprising an open pit mine, a Heavy Media Separation ("HMS") plant and an Electric Arc Furnace at a capital cost of \$35 million.
- Resource drilling on the Kinsevere project now totalling 10,315 metres and continuing; significant extension of width of the Tshifufia mineralization to the west.

---

<sup>1</sup> Refer to Non-GAAP Financial Measures on page 14

- Continuation of Kinsevere Stage II (SXEW) Feasibility Study, now expected to be completed by December 2006.
- Successful exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007, but accelerated to June 5, 2006, raising C\$16.4 million.
- Agreement signed with a Washington-based non-governmental organisation, Pact Inc., for the design and implementation of the Company's social and community development programs in the vicinity of the Dikulushi mine.

## *1. Overview*

The Group operates in the mineral production, development and exploration industry with a focus on base and precious metal exploration and mine development.

The Group holds a 90% beneficial interest in the Dikulushi mine and surrounding exploration areas, which is held under the terms of the Dikulushi Mining Convention ("Mining Agreement") with the Government of the Democratic Republic of Congo ("DRC").

The Group also has a 70% beneficial interest in the Mutoshi Copper-Cobalt project in the Kolwezi region in DRC. The Mutoshi projects, which are held by subsidiary Société Minière de Kolwezi sprl ("SMK"), includes the Mutoshi mine, the Kulu mine (coarse rejects/tailings deposit), the Mutoshi Northwest Deposit, the Noika Deposit, the Kamukonko cobalt prospect and areas situated on the relatively under-explored southern edge of the Kolwezi Klippe, a prominent geological feature in the area. The total area included in the Mutoshi project is 136.92 square kilometres.

The Group also has an indirect 70% mining lease interest in the Exploitation Permit of the Kinsevere-Nambulwa properties, held through AMCK Mining sprl ("AMCK"), which lie approximately 30 kilometres north-northeast of the provincial capital of Lubumbashi and include two separate Exploitation Permits, Kinsevere and Nambulwa, totalling 19.5 square kilometres. The two exploitation-permitted areas, approximately 25 kilometres apart, contain four distinct mineralized zones that outcrop at surface.

### *Dikulushi Copper-Silver Mine*

The Dikulushi Mine is situated in the southeast part of the DRC in the Haut Katanga District. The mine was initially established using a staged development approach. Stage I involved an initial 250,000 tonnes per annum Heavy Media Separation ("HMS") production circuit and the Stage II expansion comprised a 350,000 tonne per annum ball mill and flotation circuit. The proposed Stage III underground mine development commenced during the quarter with the establishment of the portal for the decline to start the underground development. The development has progressed approximately 16 metres by quarter end. The Deep Drilling program at Dikulushi targeting the zone between 300m and 400m below surface was completed during April (totalling 11 holes for 4,410m). Assay results indicate that several holes have hit high-grade copper intercepts over significant thicknesses. The geology of the deposit is currently under review and a new 3-D model is expected to be completed shortly. Further deep drilling may be required to complete the evaluation of the deposit between the bottom of the current pit design of 150m to 400m below surface. The open pit depth is currently 105m.

### *Kulu mine*

The Kulu mine is located northeast of the Kolwezi town in the southwest part of the DRC. The mine was established in November 2005 following commencement of construction in September 2005. Stage I of the mine involved refurbishing the HMS plant from Dikulushi and construction of the mine support infrastructure. The HMS plant, which commenced operations in December 2005, is currently treating the coarse rejects/tailings deposit from the Kulumaziba watercourse which were deposited by previous operations at the Mutoshi open pit mine. The proposed Stage II expansion,

involving the commissioning of a scrubber to increase throughput of the existing HMS plant, was completed during the first quarter of 2006. Stage III will involve a solvent extraction electro-winning (“SXEW”) plant once a bankable feasibility study is completed. However an electric arc furnace (“EAF”) may be built as an interim measure while the SXEW study is being completed.

#### *Kinsevere project*

The Kinsevere project is located approximately 30 kilometres north-northeast of Lubumbashi in the southeast part of the DRC. Following finalization of the mining lease agreement with La Générale des Carrières et des Mines (Gécamines), the State owned mining company, in November 2005 and completion of the resource evaluation in December 2005, the development scoping study was commenced. This scoping study was completed during the first quarter of 2006. A feasibility study was also completed during the second quarter of 2006 and as a result the Company approved the \$35 million Stage I development comprising the construction of a crushing plant (which has been designed to meet the needs of planned future expansion), a 500,000 tonne per annum heavy media separation (HMS) plant and an electric arc furnace (EAF), with a capacity to produce approximately 23-25,000 tonnes per annum of “black copper” ingots grading 85%-95% copper. It is expected that Stage I will be completed at the end of the first quarter of 2007. It is anticipated that the Joint Venture partners will upgrade and expand the HMS-EAF processing facilities within approximately 2-3 years with an SX-EW plant that would be capable of producing 30,000 tonnes per annum of LME grade “A” cathode copper. A feasibility study on the Stage II SX-EW upgrade has commenced and is now expected to be completed during the fourth quarter of 2006.

#### **2. Second Quarter and Six Months ended June 30, 2006**

	Second Quarter		Six months ended June 30	
	2006	2005	2006	2005
<b>Revenues: (\$ millions)</b>				
Copper-silver and copper concentrate sales	43.0	10.5	76.2	18.2
<b>Operating profit: (\$ millions)</b>				
	27.7	2.5	43.2	2.3
<b>Net earnings (loss): (\$ millions)</b>				
	22.5	0.2	30.7	(1.5)
<b>Realized Price: (\$)</b>				
<b><i>Dikulushi mine:</i></b>				
Copper per pound	3.64	1.40	2.93	1.36
Silver per ounce	11.26	6.70	10.32	6.73
<b><i>Kulu mine:</i></b>				
Copper concentrate per tonne (ex mine gate)	627	-	536	-

#### **PRODUCTION STATISTICS:**

##### **Dikulushi mine**

Ore processed (tonnes)	135,234	81,518	263,493	162,330
Copper grade (%)	4.64	4.87	4.79	4.37
Contained Copper in Ore (tonnes)	6,278	3,971	12,630	7,090
Recovery (%)	89.1	85.5	87.9	84.0
Copper produced in concentrates (tonnes)	5,601	3,395	11,106	5,954
Silver produced in concentrates (ounces)	562,513	301,967	1,059,355	547,011

	Second Quarter		Six months ended June 30	
	2006	2005	2006	2005
Ore mined (tonnes)	172,321	72,214	323,185	164,076
Waste mined (tonnes)	1,133,073	1,751,590	2,552,348	3,073,309
<b>Costs of production<sup>2</sup>: (\$)</b>				
Operating cash costs per pound (after silver credits) (ex mine gate)	0.29	0.37	0.38	0.49
Total cash costs (after silver credits)	1.01	0.79	1.03	0.93

## PRODUCTION STATISTICS:

### Kulu mine

Ore processed (tonnes)	80,848	-	132,656	-
Copper grade (%)	8.54	-	8.32	-
Contained copper in ore (tonnes)	6,920	-	11,038	-
Recovery (%)	72.6	-	67.0	-
Copper produced in concentrates (tonnes) <sup>3</sup>	5,497	-	8,129	-
Ore mined (tonnes)	89,081	-	114,113	-

### Costs of production<sup>2</sup>: (\$)

Operating cash costs per tonne (ex mine gate)	190	-	223	-
---	-----	---	-----	---

## 3. Discussion of Earnings and Operations

### Revenues (six months)

The increased price, production and delivery quantities of concentrates have contributed to the record high revenues for the first six months of 2006 compared with the corresponding six months in 2005. Revenues from the Dikulushi mine increased to \$67.1 million (2005 six months: \$18.2 million) from the delivery of 22.6 million payable pounds of copper (2005 six months: 12.4 million pounds). The average realized copper and silver prices from Dikulushi sales for the six months were \$2.93 per pound (2005 six months: \$1.36 per pound) and \$10.32 per ounce (2005 six months: \$6.73 per ounce) respectively.

In addition the Kulu mine copper concentrate production and sales generated revenue of \$9.1 million from the sale of 16,955 tonnes of copper concentrate. The revenue per tonne of Kulu concentrate for the six months was \$536 per tonne.

### Revenues (second quarter)

The increased price, production and delivery quantities of concentrates have contributed to the record high revenues for the second quarter of 2006 compared with the corresponding quarter in 2005. Revenues from the Dikulushi mine increased to \$38.4 million (June 2005 quarter: \$10.5 million) from the delivery of 10.5 million payable pounds of copper (June 2005 quarter: 6.8 million pounds). The average realized copper and silver prices from Dikulushi sales for the June quarter

<sup>2</sup> Refer to Non-GAAP Financial Measures on page 14

<sup>3</sup> Includes concentrate purchased from local artisanal miners

were \$3.64 per pound (June 2005 quarter: \$1.40 per pound) and \$11.26 per ounce (June 2005 quarter: \$6.70 per ounce) respectively.

In addition the Kulu mine copper concentrate production and sales generated revenue of \$4.6 million from the sale of 7,340 tonnes of copper concentrate. The revenue per tonne of Kulu concentrate for the second quarter was \$627 per tonne.

#### *Operating Expenses (six months)*

Operating expenses before amortization for the six months were \$29.3 million (2005 six months: \$13.2 million) from the higher level of operating activity at Dikulushi and the inclusion of Kulu mine operating costs for the six months.

The increase in operating level at both the mining and production operations at the Dikulushi mine led to the near doubling of contained copper produced for the six months to June 2006 of 11,106 tonnes (2005 six months – 5,954 tonnes) and contained silver to 1,059,355 ounces (2005 six months – 547,011 ounces) compared with the corresponding period's production.

The Dikulushi total cash operating cost per pound of copper produced (after silver credits) for the six months to June 2006 was \$1.03 (2005 six months - \$0.93) which was reflective of the continuing higher concentrate transport costs resulting from increases in fuel costs and the export of concentrate to overseas markets.

The Kulu mine's first full six months of operations produced copper concentrate of 28,385 tonnes and contained copper of 8,129 tonnes. Ore mined was 114,113 tonnes.

The operating cash cost per tonne of oxide concentrate at Kulu was \$223 per tonne. Operating costs were higher than budget due mainly to the lower production volume, as logistical delays caused the scrubber to be commissioned only in late March 2006.

The operating result (after amortization) for the six months to June 2006 was an operating profit of \$43.2 million (2005 six months - \$2.3 million) mainly from a combination of the increased copper production and the higher realized sales prices for both copper and silver which more than offset the increased operating costs. The amortization expense for the six months to June 2006 was \$3.6 million (2005 six months - \$2.7 million) an increase of \$0.9 million over the corresponding period relating mainly to the additional amortization from the Kulu mine.

#### *Operating Expenses (second quarter)*

Operating expenses before amortization for the second quarter were \$13.5 million (June 2005 quarter: \$6.7 million) from the higher level of operating activity at Dikulushi and the inclusion of Kulu mine operating costs for the second quarter.

The increase in operating level at both the mining and production operations at the Dikulushi mine led to increases in the contained copper produced for the second quarter of 5,601 tonnes (2005 second quarter – 3,395 tonnes) and contained silver to 562,513 ounces (2005 second quarter – 301,967 ounces) compared with the corresponding period's production.

The Dikulushi total cash operating cost per pound of copper produced (after silver credits) for the second quarter was \$1.01 (2005 second quarter - \$0.79) which was reflective of the continuing higher concentrate transport costs resulting from increases in fuel costs and the export of concentrate to overseas markets.

The Kulu mine's second quarter of operations produced copper concentrate of 19,185 tonnes and contained copper of 5,497 tonnes. Ore mined was 89,081 tonnes.

The operating cash cost per tonne of oxide concentrate at Kulu was \$190 per tonne. Operating costs were better than first quarter 2006 due to the plant reaching design capacity.

*Net Earnings (six months)*

The net earnings for the six months were \$30.7 million (2005 six months: loss \$1.5 million). The basic earnings per share was \$0.71 per share (2005 six months: loss \$0.05 per share).

In addition to the impact from changes in revenues, operating costs and amortization during the six months, the net profit result for the six months compared with June 30, 2005 six months, also reflect the following changes:

- General, administrative and marketing costs, primarily relating to the corporate office costs in Australia and Canada was \$3.8 million (2005 six months: \$1.9 million) representing an increase of 100%. This was due to a higher level of corporate activity associated with the March 2006 equity raising, expanded corporate governance, financial control, information technology and administrative support infrastructure for the management, administration, accounting and other administrative support services being provided from the corporate offices, to support the rapidly expanding business units in DRC which now include the Kulu mine, Mutoshi and Kinsevere projects in the DRC Copperbelt.
- The stock based compensation cost in the six months ended June 30, 2006 of \$0.6 million (2005 six months: \$0.3 million) which relates to the accrued cost of option plans granted to employees and directors designed as incentives for maintaining and increasing performance.
- Interest and financing fees of \$4.0 million (2005 six months: \$1.5 million) in the six months ended June 30, 2006, and which in the comparative first quarter both include the finance cost associated with the RMB Resources International (Dublin) Limited (“RMBI”) facility (which included the 6.25% net smelter return (“NSR”). The current six months includes the cost of the buy back option of the NSR obligation, which was exercised for \$2.0 million in January 2006. The buy back has resulted in a saving of \$2.1 million for the six months ended June 2006. Loan borrowing costs in relation to the loans provided by Deans Knight and RMBI were fully written off as both loans were repaid in full in March 2006.

*Net Earnings (second quarter)*

The net earnings for the second quarter was a profit \$22.5 million (June 2005 quarter: profit \$0.2 million). The basic profit per share was \$0.42 per share (June 2005 quarter: earnings \$0.01 per share) due mainly to increases in realized copper and silver prices and increases in production output.

**4. Discussion of Cash Flows**

	Second Quarter		Six months ended June 30	
	2006	2005	2006	2005
<b>Cash flows from:</b> (\$ million)				
Operating activities	13.8	2.7	14.5	(0.9)
Investing activities	(106.8)	(5.4)	(114.5)	(13.3)
Financing activities	14.6	(1.5)	125.9	11.2

### *Six months cash flows*

The cash inflow from operating activities for the six months was \$14.5 million (2005 six months - outflow of \$0.9 million). The current six months cash operating inflow was impacted by increase in receivables (\$24.8 million) resulting from the delays from changes in receipt cut-off dates and higher level of concentrate deliveries during the current period which were exported to smelters offshore of Africa. Receivables also increased as a result of higher realized prices for copper and silver due to the beneficial effect of a longer Quotational Periods, in a period of rising copper prices. A majority of the trade receivables as at June 30 were paid in July under normal trading terms.

The cash outflow from investing activities for the six months was \$114.5 million (2005 six months - outflow \$13.3 million). The outflows mainly relate to cash received from the capital raising in March 2006 being placed into highly secure and liquid investments. These investments can, and will, be readily converted into cash as required for the development of the Kinsevere project and working capital. Other outflows relate to acquisition payments in relation to the interests in the Mutoshi and Kinsevere-Nambulwa projects of \$4.1 million, installation of the scrubber at Kulu and purchases of mining equipment for the proposed Stage III underground mine development at Dikulushi of \$7.1 million, and exploration and evaluation expenditure incurred on the Dikulushi, Mutoshi and Kinsevere permits of \$4.0 million.

The cash inflow from financing activities for the six months was \$125.9 million (2005 six months - net inflow \$11.2 million). This inflow arose from the receipt of the net proceeds (\$121.9 million) on completion of the C\$149.5 million capital raising, and the exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007 but accelerated to June 5, 2006, raising C\$16.4 million. This was offset by the repayments of the RMBI project finance facility of \$5.5 million and Deans Knight loan facility of \$5.2 million during the current period.

### *Second quarter cash flows*

The cash inflow from operating activities for the second quarter was \$13.8 million (June 2005: inflow of \$2.7 million). This was a result of sustained growth in copper production, improvements in operational performance and improved copper and silver metal prices. Net profit for the quarter was \$22.5 million, from which, in addition to the operating cash inflow of \$13.8 million, there was an increase in accounts receivable of \$10.7 million. The majority of these debtors were received in cash in July under normal trading terms.

The cash outflow from investing activities for the second quarter was \$106.8 million (June 2005: outflow \$5.4 million). The outflows mainly relate to cash received from the capital raising in March 2006 being placed into highly secure and liquid investments. Other outflows relate to costs capitalised for exploration and development projects during the quarter of \$2.7 million (June 2005 quarter: \$3.2 million), and installation of the scrubber at Kulu and purchases of mining equipment for the proposed Stage III underground mine development at Dikulushi of \$4.5 million.

The cash inflow from financing activities was \$14.6 million (June 2005: outflow \$1.5 million). This net movement arose from the exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007 but accelerated to June 5, 2006, raising C\$16.4 million.

## 5. Discussion of Financial Position and Liquidity

	June 30 2006	December 31 2005
<b>Assets</b> (\$ millions)		
Cash and cash equivalents (including restricted cash)	34.1	8.1
Current assets	178.9	24.2
Total assets	245.5	87.5
<b>Liabilities</b> (\$ millions)		
Current liabilities	11.5	18.5
Long-term debt	-	5.1
Total liabilities	18.7	33.0
Non controlling interest	6.0	1.7
<b>Shareholders' equity</b> (\$ millions)	220.8	52.8
<b>Working capital</b> (\$ millions)	167.4	5.7
Weighted average number of shares	43,061,295	28,861,658
Outstanding number of shares	55,523,478	29,086,847

### *Cash and cash equivalents*

The increase in cash and cash equivalents (including restricted cash) to \$34.1 million at June 30, 2006 (December 2005: \$8.1 million), was attributable primarily to the exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007 but accelerated to June 5, 2006, raising C\$16.4 million and the increase in copper prices being reflected in higher level of sales receipts.

### *Current assets*

The total current assets increase to \$178.9 million at June 30, 2006 (Dec 2005: \$24.2 million) was mainly due to cash received from the capital raising in March 2006 being placed into highly secure and liquid investments (\$99.4 million). Cash and cash equivalents increased to \$34.1 million and receivables to \$32.7 million from higher deliveries and prices for the concentrate this year and an increase in the level of exports of concentrates to smelters offshore of Southern Africa.

### *Total assets*

The increase in total assets at June 30, 2006 to \$245.5 million (Dec 2005: \$87.5 million) was attributable mainly to cash received from the capital raising in March 2006 being invested into highly secure and liquid investments, and also an increase in receivables.

### *Current liabilities*

Current liabilities at June 30, 2006, reduced to \$11.5 million (Dec 2005: \$18.5 million) due mainly to full repayment of the RMBI project financing facility of \$5.5 million and settlements of purchase consideration payable totalling \$2.0 million in relation to the acquisition of the Mutoshi project. An amount of \$0.8 million was provided for income tax payable in the DRC, in relation to the Kulu operation.

### *Total liabilities*

Total liabilities at June 30, 2006 were \$18.7 million (Dec 2005: \$33.0 million). The decrease is due to the changes in current liabilities above and the repayment of the Deans Knight financing facility of \$5.2 million and partial repayment of the purchase consideration payable due in relation to the acquisition of the Mutoshi project.

### *Long Term Debt*

All of the long term debt was repaid at March 31, 2006 (Dec 2005: \$5.1 million). The Company decided to repay all of the RMBI and Deans Knight loan facilities which were scheduled to be refinanced through the Fortis Bank revolving loan facility which at June 30, 2006 had yet to be drawn down. A drawdown against the Fortis facility of \$1 million was made on July 7, 2006.

### *Working capital*

Working capital increased to \$167.4 million at June 30, 2006 (Dec 2005: \$5.7 million) mainly due to:

- receipt of funds from the bought deal equity financing of C\$149.5 million (\$121.9 million) net of the equity raising costs,
- exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007 but accelerated to June 5, 2006, raising C\$16.4 million (\$14.6 million)
- increase in receivables from changes in the cut-off dates of payments, higher deliveries of concentrates to smelters offshore of Southern Africa and the higher achieved copper and silver prices as well as the beneficial effect of longer Quotational Periods in a period of rising copper prices.

### *Non controlling interests*

The increase in non controlling interests to \$6.0 million at June 2006 (Dec 2005: 1.7 million) is primarily due to the increase in undistributed profits (\$4.7 million) and an increase from the conversion of purchase consideration payable of \$0.55 million into equity by a minority interest in the Kulu project, offset by \$1.0 million spent on the social and community development initiatives at the Dikulushi mine communities.

### *Shareholders' equity*

Shareholders' equity at June 30, 2006 increased to \$220.8 million (Dec 2005: \$52.8 million) as a result of the completion of the bought deal equity financing of C\$149.5 million; exercise of all C\$6.25 warrants, originally due to expire on December 16, 2007 but accelerated to June 5, 2006, raising C\$16.4 million (\$14.6 million); and net earnings for the first six months.

At August 8, 2006, the Company had outstanding 55,523,478 common shares. In addition there were outstanding 1,778,000 director and employee stock options with exercise prices ranging from C\$3.80 to C\$7.06 and ranging from A\$1.20 to A\$6.50 per share. The Company had 1,100,000 share purchase warrants outstanding which are exercisable as follows:

<b>Issued</b>	<b>Expiry date</b>	<b>Number</b>	<b>Exercise price</b>
July 2005	June 30, 2008	500,000	C\$5.25
December 2005	December 22, 2007	600,000	C\$6.25

Further details of these instruments are set out in note 15 of the Company's December 31, 2005 annual financial statements.

## 6. Other Matters

### Segment Information

Geographical Reporting	Second Quarter 2006			Six months ended June 30, 2006		
	DRC	Corporate	Total	DRC	Corporate	Total

Revenues	43.0	1.3	44.3	76.4	1.5	77.9
Cost of production	(15.3)	-	(15.3)	(32.9)	-	(32.9)
Other expenses	(1.0)	(1.6)	(2.6)	(3.8)	(5.0)	(8.8)
Income tax expense	(0.8)	-	(0.8)	(0.8)	-	(0.8)
Non controlling interest	(3.2)	-	(3.2)	(4.7)	-	(4.7)
	22.7	(0.3)	22.4	34.2	(3.5)	30.7

Geographical Reporting	Second Quarter 2005			Six months ended June 30, 2005		
	DRC	Corporate	Total	DRC	Corporate	Total

Revenues	10.5	-	10.5	18.2	-	18.2
Cost of production	(8.0)	-	(8.0)	(15.9)	-	(15.9)
Other expenses	(0.8)	(1.3)	(2.1)	(1.5)	(2.2)	(3.7)
Non controlling interest	(0.2)	-	(0.2)	(0.1)	-	(0.1)
	1.5	(1.3)	0.2	0.7	(2.2)	(1.5)

DRC revenues and expenses relate to the Dikulushi and Kulu Mine operations. Corporate expenses relate to the general, administrative and marketing costs of the activities of the Perth and Montreal offices.

### Deferred Exploration

As at June 30, 2006 the Company had deferred exploration costs of \$29.9 million (Dec 2005: \$27.6 million), which consisted mainly of a transfer of exploration costs to development properties in relation to the Kulu operation (\$1.7 million), offset by exploration expenditure incurred on the deep drilling program at Dikulushi (\$0.7 million), exploration expenditure on Mutoshi (\$0.6 million) and Kinsevere/Nambulwa tenements (\$0.7 million), and development costs associated with Kinsevere Stage I (\$1.8 million).

### Social Unrest at Kolwezi

On April 24, 2006, a group of illegal artisanal miners engaged in unlawful activity in the town of Kolwezi located approximately 6 kilometres to the west of the Company's Kulu Mine. As a result, one of the Anvil guesthouses was burned with the tragic loss of one Anvil staff member and one of its external contractor's security guards.

On May 2, 2006, the Kulu mine recommenced operations with the full contingent of employees back at work.

Anvil has notified the UN (MONUC) and the DRC government of this incident and is waiting for the outcome of their investigation on why the incident occurred.

### Protocol

In mid-June, the Company signed a Protocol with the Governor of the DRC Province of Katanga which establishes a set of guidelines for the manner in which DRC security forces may engage the Company during times of security breach or in the event of a natural disaster. Importantly, the

Protocol provides for a reporting procedure to various authorities including a number of multi-lateral and bi-lateral organizations, following any event of engagement.

## **7. Outlook**

The Dikulushi mine is budgeted to produce 20,000 tonnes of copper and 1,700,000 ounces of silver, contained in concentrates, on an annualized basis.

The Kulu mine is budgeted to produce 16,500 tonnes of copper, contained in concentrates during 2006.

A commitment was made during the June Quarter to proceed with the development of Kinsevere Stage I which comprises the construction of an open pit mine operation, HMS plant and an Electric Arc Furnace (EAF) for a capital expenditure of \$35 million. It is expected that Stage I will be completed at the end of the first quarter of 2007. It is anticipated that the Joint Venture partners will upgrade and expand the HMS-EAF processing facilities within approximately 2-3 years with an SX-EW plant that would be capable of producing 30,000 tonnes per annum of LME grade "A" cathode copper. A feasibility study on the Stage II SX-EW upgrade has commenced and is now expected to be completed during the fourth quarter of 2006.

Following the completion of the C\$149.5 million bought deal equity raising in March 2006, the Group expects to have sufficient financial resources to complete the Group's 2006 development objectives.

## **8. Critical accounting policies, risks and uncertainties**

The accounting policies that involve significant management judgement are discussed in this section. For a complete list of the significant accounting policies reference should be made to note 3 of the December 31, 2005 consolidated financial statements and a more detailed analysis of the risk factors that face the Group can be found in the most recent annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com)

### *Mine properties*

The Group adopts a unit-of-production method to amortize its mine properties. This method requires estimates of economically recoverable reserves of the Group's mine properties. Qualified independent surveyors and geologists are engaged to estimate the economic recoverable reserves. The estimation process involves sampling and other statistical tools to estimate the amount of recoverable reserves.

Variations in the calculated estimate of the recoverable reserves from period to period when the recoverable reserves are re-calculated affect both the carrying value of plant, property and equipment as well as the amortization charges for any given financial period.

### *Exploration Costs*

The Group accumulates certain costs associated with exploration activities on specific areas of interest where the Group has rights of tenure. The Group's policy is to expense any exploration and associated costs relating to non-specific projects and properties. Significant property acquisition, exploration, evaluation and development costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is put into production, sold or abandoned. No costs are deferred on a mineral property that is considered to be impaired in value. As at June 30, 2006, the Group has deferred exploration costs of approximately \$29.9 million associated with exploration properties in Africa and Southeast Asia.

### *Deferred Mining Costs*

The Group uses the deferred stripping accounting method for mining costs associated with waste rock removal, which is in excess of the life-of-mine average. Waste rock mining costs are deferred and charged to operations on the basis of the average stripping ratio for the life of the mine. The waste to ore ratio and remaining life of the mine are both regularly assessed to ensure that both the carrying value and rate of deferral are appropriate.

The amount deferred or charged to cost of production is subject to management's estimate of the stripping ratio over the life of the mine. Any change in the stripping ratio or mine life estimate could have a material effect on the financial results. During the quarter ended June 30, 2006, the Group deferred \$0.0 million for deferred stripping costs based on a prospective life of mine strip ratio of 13.3:1 compared to the actual strip ratio for the quarter of 9.5:1. As at June 30, 2006, the unamortized deferred mining costs carried forward is \$1.5 million (Dec 2005: \$4.1 million)

### *Restoration, rehabilitation and environmental expenditure*

Expenditures related to ongoing restoration, rehabilitation and environmental obligation activities are accrued and expensed as incurred and included in the relevant exploration activity cost or as part of the cost of production where the expenditures are in relation to current mining operations.

Future restoration, rehabilitation and environmental obligations based on reasonably determinable current regulatory requirements are provided for in accordance with Canadian Institute of Chartered Accountants 3110 "Asset Retirement Obligations".

### *Future Income Taxes*

The Group has adopted CICA 3465 "Income Taxes". Under the standard, the Group is required to estimate the existence of both taxable losses and the recoverability of these losses. The adoption of CICA 3465 has no material impact on the financial statements.

As at June 30, 2006, the Group has estimated its future recoverable income tax losses in Canada, Australia, the DRC and Zambia. The recoverability of losses is dependent upon the ability to generate positive future taxable income to offset the existing carry forward losses.

### *Estimates, Risks and Uncertainties*

Financial statements prepared in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from those estimates.

The Group's operations and results are subject to a number of different risks at any given time. These risk factors include, but are not limited to disclosure regarding the speculative nature of mineral exploration and development, political stability, liquidity and future financings, logistics, lack of infrastructure, uninsurable risks, mineral resources and ore reserves, uncertainty of inferred resources, mine life, licences and permits, land title, government regulations, foreign operations, environmental and regulatory requirements, conflicts of interests, limited operating history, volatility of copper and silver prices, key personnel, labour and employment matters, subsidiaries, mineral exploration and mine carrying inherent risks, currency risk, competition, dilution, and dividend policy. A more detailed analysis of the risk factors faced by the Group can be found in the most recent annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 9. Summary of Quarterly Results (unaudited)

The financial performance, financial position and operating statistics for the last eight quarters are shown in the table below.

Statement of Operations and Earnings	Jun 06 Quarter	Mar 06 Quarter	Dec 05 Quarter	Sep 05 Quarter	Jun 05 Quarter	Mar 05 Quarter	Dec 04 Quarter	Sep 04 Quarter
Concentrate sales (\$ millions) <sup>4</sup>	43.0	33.2	25.9	17.8	10.5	7.7	8.7	7.2
Operating profit <sup>5</sup> (loss) before amortization (\$ millions)	29.5	17.4	11.9	7.8	3.8	1.2	2.8	2.5
Amortization (\$ millions)	(1.8)	(1.8)	(1.9)	(1.3)	(1.3)	(1.4)	(1.0)	(0.7)
Operating profit <sup>5</sup> (loss) (\$ millions)	27.7	15.6	10.0	6.5	2.5	(0.2)	1.8	1.8
Net earnings (loss) (\$ millions)	22.5	8.3	6.1	2.9	0.2	(1.7)	0.5	0.4
Basic earnings (loss) per share (\$)	0.42	0.26	0.21	0.10	0.01	(0.06)	0.02	0.01
Diluted earnings (loss) per share (\$)	0.41	0.25	0.20	0.10	0.01	(0.06)	0.02	0.01
<b>Production Statistics – Dikulushi mine</b>								
Ore processed (tonnes)	135,234	128,259	127,222	120,822	81,518	80,812	75,864	65,455
Copper grade %	4.64	4.95	5.54	5.52	4.87	3.86	4.69	5.81
Contained copper (tonnes)	6,278	6,352	7,049	6,663	3,971	3,119	3,558	3,800
Recovery %	89.1	86.7	86.3	86.7	85.5	82.1	81.3	69.1
Copper produced in concentrates (tonnes)	5,601	5,505	6,085	5,777	3,395	2,559	2,894	2,626
Silver produced in concentrates (ounces)	526,513	532,842	587,882	586,875	301,967	245,044	277,403	224,784
Payable pounds of copper contained in concentrate delivered (million)	10.4	12.1	12.9	10.4	6.8	5.6	5.8	5.3
Payable ounces of silver contained in concentrate delivered	441,277	506,508	542,029	432,447	262,111	230,168	240,553	195,111
<b>Production Statistics – Kulu mine</b>								
Ore processed (tonnes)	80,848	51,808	17,981					
Copper grade %	8.54	7.95	7.67					
Contained copper (tonnes)	6,920	4,118	1,379					
Recovery %	72.6	58.0	51.6					
Copper produced in concentrates (tonnes)	5,497	2,632	1,361					
Copper concentrate sold (tonnes)	7,340	9,615						

## 10. Additional Notes

### Deed of Cross Guarantee

For the purpose of simplifying reporting in Australia, Anvil Mining Limited and certain Australian incorporated companies entered into a Deed of Cross Guarantee and Deed of Variation (the “Deeds”) under which each company guarantees the liabilities of all other companies that are a party to the Deeds. The companies which form this “Closed Group” (as defined by Australian Securities and Investments Commission Class Order 98/1418) are: - Anvil Mining Limited, Anvil Mining Management NL, Central African Holdings Pty Ltd, Congo Development Pty Ltd, Anvil Mining No 2 Pty Ltd, Anvil Mining No 3 Pty Ltd, Leda Mining Pty Ltd and Bannon Mining Pty Ltd.

<sup>4</sup> Concentrate sales include copper and silver concentrate from Dikulushi and copper concentrate from Kulu

<sup>5</sup> Refer to Non-GAAP Financial Measures on page 14

## *Technical Information*

Information of a scientific or technical nature in this management discussion and analysis and financial review has been prepared under the supervision of Bill Turner, President and Chief Executive Officer of Anvil Mining Limited, a Fellow of the Australasian Institute of Mining and Metallurgy, who has more than five years experience in the field of the activity reported herein and is a qualified person under Canadian National Instrument 43-101.

The information in this report that relates to in-situ mineral resource figures for the Kulu mine and Kinsevere-Nambulwa project are based on an independent Technical Report prepared by Mr Gerry Fahey MAIG, MAusIMM (CP) (who is a NI 43-101 Qualified person and who also qualifies as a Competent Person) of FinOre Pty Ltd, a geological consulting company in Perth, Australia. The Technical Report was prepared in accordance with Canadian National Instrument 43-101 and has been filed on SEDAR with the relevant Canadian Securities Commission. A copy is available at [www.sedar.com](http://www.sedar.com). A copy has also been lodged with the Australian Stock Exchange for information purposes. Gerry Fahey has consented to the inclusion in the report of the matters based on his information in the form and context in which they appear.

## *Non-GAAP Financial Measures*

The terms “total cash cost” and “operating cash cost (ex-mine gate)” are used on a per pound of payable copper produced basis and after by-product silver credits are applied. The operating cash cost (ex-mine gate) per payable pound of copper produced is equivalent to the costs of mining and processing operations incurred (after net credits for silver revenues) for the period divided by the number of payable pounds of copper produced during the period. The total cash cost of production per payable pound of copper produced is equivalent to the ex-mine gate cash cost including the relevant unit transport, smelting and refining and realization costs (after net credits for silver revenues) for the period divided by the number of payable pounds of copper produced during the period. Cash operating cost information is included to provide information about the cost structure of the mining and processing operations. The term “operating profit” represents the net attributable revenues after deducting mine operating costs and amortization. The mine operating costs exclude exploration expense, foreign exchange gains and losses and interest and financing fees. The term working capital equals current assets less current liabilities.

The term Cash flow from operations per share, before changes in non cash working capital, is based on a calculation using the weighted average number of common shares outstanding during the period.

This information differs from measures of performance determined in accordance with GAAP in Canada and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP and may not be comparable to similarly titled measures of other companies.

## *Forward Looking Statements*

The forward-looking statements made in this Management’s Discussion and Analysis are based on assumptions and judgements of management regarding future events and results. Such forward-looking statements, including but not limited to those with respect to the prices of copper and silver, estimated future production and estimated costs of future production involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the actual prices of copper and silver, the actual results of current exploration, the actual results of development and mining activities, changes in project parameters as plans continue to be evaluated, changes in the political environment in the

countries in which the Group is operating, as well as those factors disclosed in the Company's filed documents.

Statements regarding the Company's plans with respect to the evaluation and future development of the Kulumaziba coarse rejects/tailings deposit, the evaluation of the Mutoshi and Kinsevere-Nambulwa Projects (including Tshifufia Central, Tshifufia South and Tshifufiamashi) and to the recent expansion of the Dikulushi operation are forward-looking statements. There can be no assurance that future due diligence will be successfully completed, that future required regulatory approvals will be obtained or that anticipated transactions will be completed satisfactorily. There can be no assurance that the Company will be able to confirm the presence of a mineral deposit at any of the prospects at Mutoshi or Kinsevere-Nambulwa, nor that any mineralization will be proven to be economic.