

**TIOMIN RESOURCES INC.**

**FOR THE SIX MONTHS ENDED JUNE 30, 2005**

**NOTICE TO READER**

The accompanying unaudited interim consolidated financial statements and all information contained in the attached 2005 second quarter report have been prepared by and are the responsibility of the management of the Company.

The Audit Committee of the Board of Directors, consisting of three members, has reviewed the financial statements and related financial reporting matters.

The Company's independent auditors, Ernst & Young LLP, Chartered Accountants, have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.



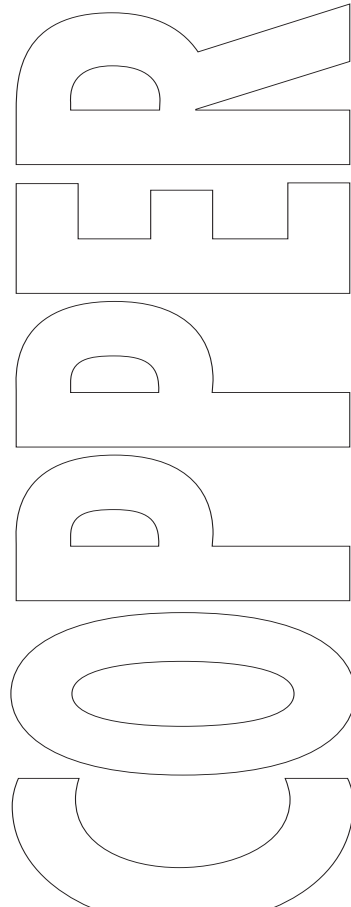
Bruce C. Ramsden  
*Chief Financial Officer*

# TITAN NUM

**BREAKING NEW GROUND**

**SECOND QUARTER REPORT  
SIX MONTHS ENDED JUNE 30, 2005**

**TI  MIN**  
**RESOURCES INC.**



**TIOMIN RESOURCES INC.**

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**TIOMIN RESOURCES INC.****CONSOLIDATED BALANCE SHEETS**

	<b>June 2005</b>	December 2004
	<i>Unaudited</i>	<i>Audited</i>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	<b>3,861,663</b>	1,050,113
Receivables	<b>38,778</b>	16,197
Prepaid expenses	<b>202,600</b>	489,316
	<b><u>4,103,041</u></b>	<u>1,555,626</u>
Fixed assets, net of accumulated depreciation (note 3)		
Mineral properties (note 4)	<b>746,820</b>	725,609
Deferred exploration and development (note 4)	<b>2,073,107</b>	1,161,802
	<b>19,794,810</b>	17,621,200
	<b><u>22,614,737</u></b>	<u>19,508,611</u>
	<b><u>26,717,778</u></b>	<u>21,064,237</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	<b>115,110</b>	343,635
Long-term		
Long-term liabilities (note 6)	<b>386,262</b>	386,262
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 7)	<b>99,336,696</b>	92,154,473
Contributed Surplus (note 7b and 7c)	<b>1,704,489</b>	661,255
Deficit	<b>(74,824,779)</b>	(72,481,388)
	<b><u>26,216,406</u></b>	<u>20,334,340</u>
	<b><u>26,717,778</u></b>	<u>21,064,237</u>
See accompanying notes		

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

for the quarters ended June 30 (amounts in \$)

	<i>For the three months</i>		<i>For the six months</i>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>EXPENSES</b>				
Salaries & other compensation (note 7c)	<b>432,520</b>	186,599	<b>780,622</b>	376,617
Office costs	<b>38,140</b>	54,826	<b>76,071</b>	88,618
Foreign exchange loss (gain)	<b>62,320</b>	738	<b>35,677</b>	3,510
Depreciation	<b>3,199</b>	3,013	<b>5,994</b>	6,707
Travel	<b>10,063</b>	31,516	<b>27,330</b>	68,878
Stock exchange fees	-	-	<b>11,800</b>	11,040
Shareholders' information	<b>49,938</b>	48,596	<b>73,038</b>	54,203
Promotion	<b>41,743</b>	21,780	<b>90,743</b>	63,986
Professional fees	<b>54,601</b>	23,591	<b>70,228</b>	40,320
Capital tax and other taxes	-	-	-	445
General exploration	<b>99,362</b>	12,637	<b>111,013</b>	14,397
<b>Total expenses</b>	<b>791,886</b>	383,296	<b>1,282,516</b>	728,721
Less: interest income and other income	<b>(18,941)</b>	(87)	<b>(20,105)</b>	(617)
<b>Net loss for the period</b>	<b>772,945</b>	383,209	<b>1,262,411</b>	728,104
Share issue costs (note 7)	<b>566,236</b>	55,200	<b>1,080,980</b>	55,200
Deficit, beginning of the period	<b>73,485,598</b>	71,162,532	<b>72,481,388</b>	70,817,637
<b>Deficit, end of the period</b>	<b>74,824,779</b>	71,600,941	<b>74,824,779</b>	71,600,941
Basic and diluted loss per share	<b>\$ 0.01</b>	\$ 0.00	<b>\$ 0.01</b>	\$ 0.01
Basic and diluted weighted average shares outstanding			<b>131,419,002</b>	104,025,606

See accompanying notes

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>For the three months</i>		<i>For the six months</i>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	<b>(772,945)</b>	(383,209)	<b>(1,262,411)</b>	(728,104)
<i>Add (deduct) non-cash items</i>				
Depreciation charges	<b>3,199</b>	1,761	<b>5,994</b>	6,707
Compensation expense	<b>285,102</b>	44,053	<b>493,667</b>	88,105
Sub-lease expense	<b>(7,998)</b>	(7,998)	<b>(15,996)</b>	(15,996)
Fixed asset written-off	<b>3,890</b>	-	<b>3,890</b>	-
<i>Change in non-cash working capital</i>				
Decrease (increase) in accounts receivable	<b>6,026</b>	(791)	<b>(22,581)</b>	35,336
Decrease (increase) in prepaid expenses	<b>17,360</b>	(12,599)	<b>286,716</b>	(56,578)
Increase (decrease) in accounts payables and accrued liabilities	<b>(169,568)</b>	(635,284)	<b>(212,529)</b>	(211,637)
	<b>(634,934)</b>	(994,067)	<b>(723,250)</b>	(882,167)
<b>INVESTING ACTIVITIES</b>				
Mineral properties acquired	<b>(538,478)</b>	(77,918)	<b>(911,305)</b>	(79,331)
Deferred exploration and development expenditures	<b>(1,041,406)</b>	(432,021)	<b>(2,175,288)</b>	(958,920)
Net fixed assets acquisitions	<b>(15,170)</b>	(1,418)	<b>(29,417)</b>	(15,803)
	<b>(1,595,054)</b>	(511,357)	<b>(3,116,010)</b>	(1,054,054)
<b>FINANCING ACTIVITIES</b>				
Common shares issued for cash	-	4,384,418	<b>7,182,223</b>	4,419,518
Share issue costs	<b>(16,669)</b>	(55,200)	<b>(531,413)</b>	(55,200)
	<b>(16,669)</b>	4,329,218	<b>6,650,810</b>	4,364,318
Increase (decrease) in cash and short-term investments	<b>(2,246,657)</b>	2,823,794	<b>2,811,550</b>	2,428,097
Cash and short-term investments, beginning of the period	<b>6,108,320</b>	73,487	<b>1,050,113</b>	469,184
<b>Cash and short-term investments, end of the period</b>	<b>3,861,663</b>	2,897,281	<b>3,861,663</b>	2,897,281

See accompanying notes

# **NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

1. **NATURE OF OPERATIONS**

Tiomin Resources Inc. (the "Company" or "Tiomin") and its subsidiaries have mineral exploration properties located mainly in Kenya. The exploration and development of mineral properties involves significant financial risk. The recoverability of the amounts shown for the mineral properties and the related deferred expenditures is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, confirmation of the Company's and its subsidiaries' interest in the underlying mineral claims, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

The unaudited consolidated financial statements for the six months ended June 30, 2005 have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. These unaudited consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with prior years. Outlined below are those policies considered particularly significant.

**Mineral Properties and Deferred Exploration and Development:**

Acquisition and exploration expenses relating to mineral properties with proven resource potential are deferred until the properties are brought into production at which time they are depleted on a unit-of-production basis. If it is determined that capitalized acquisition, exploration and development costs are not recoverable over the economic life of the property, or the project is abandoned, the project is written-down to its net realizable value. All other exploration expenses are expensed in the year that they occur. The Company does not accrue the future cost of maintaining the properties in good standing.

**Fixed Assets and Depreciation:**

Fixed assets are stated at acquisition cost. Depreciation is provided on the straight-line basis over the following periods:

Computers	3 years
Vehicles	3 years
Furniture and fixtures	5 years
Mining equipment	3 years

**Foreign Currency Translation:**

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the period end exchange rates. Non-monetary assets have been translated at the rates prevailing at the dates of acquisition. Revenue and expense items other than depreciation are translated at the average rates of exchange prevailing during the year. Any exchange gain or loss that arises on translation is included in the determination of net loss for the period.

### Cash and Cash Equivalents:

Cash and cash equivalents are comprised of cash on hand and short-term investments that mature within 90 days from the date of acquisition.

### Income Taxes:

Current income taxes are recognized for the estimated income and mining taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Future income taxes are measured using the tax rates and laws that will be in effect when the differences are expected to reverse or the losses to be realized.

### Stock-based Compensation

The Company has a stock-based compensation plan that is described in note 7 (c). Effective January 1, 2003, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation on a prospective basis, as permitted by the standard. This standard requires a fair value based method of accounting to be applied to all stock-based awards. Effective January 1, 2003, the Company accounts for employee stock-based compensation by measuring all awards granted on or after January 1, 2003 under the fair value based method of accounting, using the Black - Scholes pricing model. Consideration paid on the exercise of stock options and warrants is credited to share capital.

### 3. FIXED ASSETS

The following table provides a breakdown of the Company's fixed assets:

	<b>June 30 2005 \$</b>	<b>December 31 2004 \$</b>
Computers	95,248	90,558
Furniture and fixtures	32,382	24,841
Equipment	60,347	57,289
Vehicles	26,902	12,902
Land	692,699	691,677
Cost	<u>907,578</u>	<u>877,267</u>
Accumulated depreciation	<u>(160,758)</u>	<u>(151,658)</u>
<b>Net Fixed Assets</b>	<b><u>746,820</u></b>	<b><u>725,609</u></b>

### 4. MINERAL PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT

The interests in mineral properties and respective deferred exploration and development costs are as follows:

	<b>MINERAL PROPERTIES</b>		<b>DEFERRED EXPLORATION AND DEVELOPMENT</b>	
	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
Kenya	1,208,934	1,161,802	18,841,254	17,621,200
Peru	864,173	-	953,556	-
Total	<u>\$2,073,107</u>	<u>\$1,161,802</u>	<u>\$19,794,810</u>	<u>\$17,621,200</u>

In June 1996, the Company acquired from Pangea Goldfields Inc. ("Pangea"), subsequently purchased by Barrick Gold Corp., a 100% interest, subject to a 20% net profit interest royalty ("NPI"), in the exploration rights of three Special Licences along the Kenyan coast. Under the terms of the agreement, the Company must

spend a minimum of US\$200,000 on exploration on the properties during the first year and complete a feasibility study within five years. If the properties are placed into production, Pangea will receive 20% of the net profits from any mining operation following payback of Tiomin's capital investment in the mine and processing operation. In 2000, the Company completed a positive feasibility study and made a decision to proceed to production, thus satisfying the terms of the agreement with Pangea. The three Special Licences require the Company to spend a minimum of 14,000,000 Kenyan shillings (approximately US\$235,000) per annum on exploration. The licences were renewed in April 2004 and currently expire in 2006.

In April 1997, the Company acquired a fourth licence in Kenya known as Kwale. The licence was for an initial term of two years and required the Company to spend a minimum of 500,000 Kenyan shillings (approximately US\$8,500) per annum on exploration. This licence was added to the initial agreement with Pangea whereby Pangea retains a 20% NPI in the Kenyan properties. On July 6, 2004, the Company received a 21 year renewable Special Mining Lease for the Kwale property. On February 2, 2005, the Government of Kenya and the Company executed the Fiscal Investment Agreement pertaining to the Kwale project. According to the agreement, the Company committed to invest in the Kwale project not less than US\$150 million during the first five years of the term granted under the Special Mining Lease, inclusive of development capital invested to date. The fiscal terms of the agreement include a 50% reduction in the corporate tax rate for 10 years from the start of commercial production of the mine. The Agreement is also subject to a 2.5% gross revenue royalty to the Government of Kenya.

In October 2004, the Company entered into a 49/51% joint venture agreement with Compania Minera Milpo S.A.A. ("Milpo") for the exploration of the Pukaqaqa copper/gold deposit located on a 3,150 hectare land package in Peru. The Pukaqaqa deposit was discovered by Rio Tinto Mining and Exploration Ltd. ("RTZ") in 1996. The property was subsequently optioned to Milpo in October 2001 for cash payments of US\$0.5 million in 2005, US\$1.5 million on October 1, 2006 and US\$2 million on October 1, 2007. RTZ retains a net smelting return royalty of up to 1%.

According to the joint venture agreement, Tiomin can earn 49% of Milpo's option interest in the property by contributing a total of US\$2 million, consisting of:

- US\$1 million in exploration expenditures of which US\$300,000 is to be contributed before October 2005, and an additional US\$700,000 before October 1, 2007.
- US\$1 million in cash payments consisting of US\$100,000 in January 2005 (paid) and US\$400,000 in July 2005 (paid) as per the agreement between Milpo and RTZ, and US\$300,000 towards the purchase of the Jupiter claim on behalf of the joint venture. The remaining US\$200,000 will be applied towards either the balance of property payments to RTZ or on further exploration work at the Company's discretion.

Once the Company has earned-in 49% of the option interest, it will share the balance of payments owed to RTZ equally with Milpo on a pro-rata basis. The Company's pro-rata share of future property payments will then be US\$700,000 payable on October 1, 2006 and US\$1.0 million on October 1, 2007. The total acquisition cost to Tiomin for its 49% interest in the Pukaqaqa deposit is US\$3.7 million which includes US\$1.0 million in new exploration.

## 5. **TIOMIN SYNTHETIC RUTILE ("TSR") PROCESS**

The proprietary TSR Process developed by Tiomin is used to upgrade the mineral ilmenite into a high-grade titanium dioxide feedstock known as synthetic rutile. The TSR Process employs the latest chemical processing technology to produce a synthetic rutile product containing up to 97% titanium dioxide, the highest titanium dioxide content in the market place. In 1997, the Company submitted several patent applications to various international Intellectual Property Offices around the world for its TSR Process and has been granted patents in several countries. In December 2003, Tiomin wrote-off the \$1,236,796 previously capitalized value of the TSR Process as it could not determine its realizable value in the foreseeable future. Tiomin will maintain its patents in good standing as it believes that the TSR Process is still a valuable asset. The costs of maintaining the patents have been expensed

## 6. LONG-TERM LIABILITIES

### Development loan

On April 22, 1999, the Canadian International Development Agency and the Company entered into a loan agreement under the Industrial Overseas Development Programme. The proceeds of the loan were to be used to offset the cost of certain environmental work incorporated in the Kwale feasibility study. Under the terms of the agreement, Tiomin had to spend a minimum of \$1,480,000 on the feasibility study prior to June 30, 2000 in order to be entitled to the maximum loan amount of \$391,000. The loan is non-interest bearing and is repayable once the Company's cumulative product sales from the project exceed \$5,000,000. In the event that the Kwale project is not put into production or fails to achieve the sales threshold, the loan will be treated as a grant and the Company will not be required to repay the loan. The Company met the minimum level of expenses of \$1,480,000 and received \$386,000 of the maximum loan amount.

## 7. CAPITAL STOCK

a) The Company is authorized to issue an unlimited number of common shares.

	<u>Shares #</u>	<u>Amount \$</u>
<b>Total common shares, January 1, 2003</b>	<b>68,809,030</b>	<b>79,935,891</b>
Issued upon exercise of options	250,000	75,000
Private placement	20,000,000	4,200,000
Issued upon exercise of warrants	13,775,544	3,265,891
<b>Total common shares, January 1, 2004</b>	<b>102,834,574</b>	<b>87,476,782</b>
Issued upon exercise of options	967,000	298,600
Issued upon exercise of warrants	674,900	182,223
Private placement	11,991,051	4,196,868
<b>Total common shares, January 1, 2005</b>	<b>116,467,525</b>	<b>92,154,473</b>
Private placement	17,500,000	7,200,000
Issued upon exercise of warrants	674,900	182,223
<b>Total common shares, June 30, 2005</b>	<b>134,642,425</b>	<b>99,336,696</b>

On January 10, 2003, the Company completed a private placement of 20,000,000 common shares for gross proceeds of \$4,200,000.

On June 16, 2004, the Company, pursuant to a private placement, issued 11,991,051 units at \$0.35 for gross proceeds of \$4,196,868. Each unit consists of one common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at \$0.50 for a period of 18 months from the issue date.

On March 8, 2005, the Company announced that it had closed a private placement of \$7,000,000. The equity financing consisted of 17,500,000 units priced at \$0.40. Each unit entitles the holder to receive one common share of the Company and one-half common share purchase warrant which each full warrant convertible into one common share of the Company for \$0.50 until March 8, 2007. In addition, the Company also issued 1,050,000 compensation options to the underwriters. Each compensation option entitles the holder to purchase one unit (a "Compensation Unit") at a price of \$0.40 at any time up until March 8, 2007. Each Compensation Unit consists of one common share and one-half of one Series J common share purchase warrants. Issue costs related to this equity financing amounted to \$1,080,980.

Included in share issue costs is an amount of \$549,567 estimated at the date of grant using the Black-Scholes pricing model for the Compensation Unit issued to the underwriters with the following assumptions: risk free interest rate of 2.9944%, expected dividend yield of nil, expected volatility of 141.58% and expected option life term of two years years.

On April 28, 1997, the Company adopted a Shareholder Rights Plan. Each shareholder of record from the close of business on April 28, 1997 will be issued one right for each common share held. In the event that a bidder acquires 20% or more of the outstanding voting shares of the Company other than by a permitted bid or with the

approval of the Board of Directors of the Company, the rights would become exercisable to purchase common shares of the Company at a 50% discount to the then current market price. The Shareholder Rights Plan was re-approved by the shareholders on June 20, 2002 and extended for a further five year period.

#### b) WARRANTS AND COMPENSATION OPTIONS

The following is a list of the warrants outstanding as at March 31, 2005. All warrants are convertible into one common share of the Company.

<u>Type</u>	<u>Total Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Series I	5,995,529	\$0.50	Dec 15, 2005
Series J	9,275,000	\$0.50	Mar 8, 2007
Compensation options	1,050,000	\$0.40	Mar 8, 2007

Following the adoption of the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation, any compensation warrants are included as part of share issue cost. The valuation is done using the Black-Scholes pricing model

The 674,900 Series G warrants outstanding at December 31, 2004, were all exercised on January 6, 2005 for proceeds of \$182,223.

The Series I warrants were issued in relation to the private placement closed on June 16, 2004 and the Series J were issued in relation to the private placement closed on March 8, 2005. The Company also issued on March 8, 2005, 1,050,000 compensation options to the underwriters of the private placement. Each compensation option entitles the holder to purchase one unit (a "Compensation Unit") at a price of \$0.40 at any time up until March 8, 2007. Each Compensation Unit consists of one common share and one-half of one Series J common share purchase warrant.

#### c) STOCK OPTIONS

Under the Company's Stock Option Plan (the "Plan") established in 1996 and approved by shareholders in 1996, 2000 and 2004, the Company may grant to directors, officers, employees and consultants options to purchase common shares of the Company. The aggregate number of shares reserved for issuance under the Plan shall not exceed 13,000,000 common shares. The total number of shares which may be reserved for issuance to any one individual under the Plan shall not exceed 5% of the total number of issued and outstanding shares (on a non-diluted basis) and shares reserved for issuance under the Plan. Options granted since 1995 have a five-year term and are priced at the TSE closing price of the Company's common shares on the day immediately prior to the date of granting. Vesting provisions vary according to the terms of the individual granting.

A summary of the outstanding stock options is presented below.

	<b>June 30, 2005</b>		<b>December 31, 2004</b>	
	<b>#</b>	<b>Weighted Average Exercise Price</b>	<b>#</b>	<b>Weighted Average Exercise Price</b>
	<b><u>Options</u></b>	<b><u>Price</u></b>	<b><u>Options</u></b>	<b><u>Price</u></b>
Outstanding, Beginning of year	4,050,000	\$ 0.41	4,902,000	0.39
Granted	3,370,000	0.36	180,000	0.39
Exercised	-	-	(967,000)	0.31
Cancelled / Expired	(300,000)	0.35	(65,000)	0.30
Outstanding, end of the period	<u>7,120,000</u>	0.39	<u>4,050,000</u>	0.41
Options exercisable at the end of the period	<u>4,223,334</u>		<u>3,420,000</u>	

The following table summarizes information about the stock options outstanding as at June 30, 2005.

<b>OPTIONS OUTSTANDING</b>				<b>OPTIONS EXERCISABLE</b>	
<b>Range of Exercise Prices</b>	<b>Number Outstanding As at June 30, 2005</b>	<b>Weighted Average Remaining Life (years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable As at June 30, 2005</b>	<b>Weighted Average Exercise Price</b>
\$0.23 - 0.28	1,685,000	2.15	\$0.25	1,685,000	\$0.25
\$0.30 - 0.38	4,345,000	3.91	0.36	1,625,000	0.32
\$0.40 - 0.50	330,000	3.13	0.45	153,334	0.48
\$0.65	50,000	0.85	0.65	50,000	0.65
\$0.94	710,000	<u>0.20</u>	<u>0.94</u>	710,000	<u>0.94</u>
	<u>7,120,000</u>	<u>3.07</u>	<u>0.38</u>	<u>4,223,334</u>	<u>0.41</u>

In 2004 and during the first quarter of 2005, the fair value of the options granted during the year was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 4.0%, expected dividend yield of nil, expected volatility of 107% and expected option life term of four years. Under this method of calculation the fair value of the 180,000 stock options granted in 2004 was \$42,380 compared to \$948,202 for the options granted during the six months ended June 30, 2005. This amount is being recognized as a compensation expense over its vesting period. Accordingly, \$493,667 was included in the Statement of Operations for the six months ended June 30, 2005 (2004 - \$88,105). During the quarter ended June 30, 2005 a total of 300,000 stock options were cancelled.

## 8. INCOME TAXES

The components of the Company's future income tax assets are as follows:

	<b>2004</b>	<b>2003</b>
	\$	\$
Non-capital losses carried forward	4,343,000	4,033,000
Resource related deductions	3,575,000	3,752,000
Share issuance costs	185,000	257,000
Capital assets	276,000	287,000
<b>Future income tax asset</b>	<b>8,379,000</b>	<b>8,329,000</b>
Valuation allowance	(8,379,000)	(8,329,000)
<b>Net future income tax asset</b>	<b>—</b>	<b>—</b>

As at December 31, 2004, the Company had non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

2006	2,013,000
2007	2,233,000
2008	2,332,000
2009	1,282,000
2010	1,460,000
2011	<u>1,599,000</u>
	10,919,000

9. **LEASE COMMITMENT**

The Company is committed to minimum annual rents under a lease, which expires on January 31, 2006. As at June 30, 2005, future minimum annual rental payments, net of proceeds from subleases, are as follows:

2005	\$15,996
2006	\$2,666

10. **RELATED PARTY TRANSACTIONS**

During the first and second quarter of 2004, the Company borrowed a total of \$750,000 from two of its directors. The loans were repaid on June 16, 2004 of the same year and included \$19,450 of interest.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements, and is intended to provide the reader with a review of the factors that affected Tiomin Resources Inc.'s ("Tiomin") performance during the second quarter ended June 30, 2005 and should be read in conjunction with Tiomin's audited consolidated financial statements and related notes as at December 31, 2004. Tiomin prepares and files its financial statements with Canadian generally accepted accounting principles. All dollar amounts referred to are expressed in Canadian dollars.

### **Forward-Looking Information**

When used in this document, words such as "estimate", "expect", "anticipate" and "believe" and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects, and goals for Tiomin and therefore involve inherent risks and uncertainties. The reader is cautioned that actual results, performance or achievements may be different from those implied or expressed in such statements. Tiomin undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or such factors which affect this information, except as required by law.

### **Date of MD&A**

This MD&A was prepared on July 29, 2005.

### **Overview**

This discussion and analysis of the consolidated operating and financial condition of Tiomin for the second quarter ended June 30, 2005 and June 30, 2004, should be read in conjunction with the respective Consolidated Financial Statements and related notes.

Tiomin is incorporated under the laws of the Canada Business Corporations Act and its registered and executive office is at 26 Wellington Street East, Suite 820, Toronto, Ontario, Canada M5E 1S2.

Tiomin Resources Inc. is involved in the exploration and development of industrial mineral and base metal projects. Since mid-1998, the Company has focused on the development of its Kwale titanium bearing mineral sands project in Kenya. The Company is currently not in production on any of its properties and has only minimal revenue derived from interest earned on its cash balances.

On July 6, 2004, at a signing ceremony hosted in Nairobi, the Company received the 21 year renewable Special Mining Lease for the Kwale project. On February 2, 2005, the Company executed the fiscal investment agreement with the Government of Kenya dealing with the Kwale project.

In mid-2003, the Company engaged Ausenco Limited based in Australia to perform an engineering review of the positive feasibility study previously completed in 2000 to reflect the changes that have taken place since that time. The engineering review was mostly completed in mid-2004 and the report was issued in February 2005. The review confirmed the economic viability of the Kwale project. Capital costs, excluding contingencies, are expected to be approximately US\$160 million, with a capital payback period of approximately four years and an estimated internal rate of return of 18%.

Substantial progress has been made in marketing the expected production from Kwale, with letters of intent being executed for a significant portion of the future production of zircon and rutile. During the quarter under review the Company signed a sales agreement with a major Chinese company for one million tonnes of ilmenite production from Kwale. The agreement is based on 200,000 tonnes of ilmenite per annum for the first five years of production, with an option to renew for a further one million tonnes over the next five years of production. Efforts will continue to secure further contracts of sale for the ilmenite production during the course of 2005 and the Company will focus on completing the detailed engineering and obtaining the necessary project financing to enable construction to commence.

On January 10, 2005, the Company announced it had finalized a 49% joint venture ("JV") with Compania Minera Milpo S.A.A. ("Milpo") for the exploration of the Pukaqaqa copper-gold deposit located approximately 230 km southeast of Lima, Peru. Milpo is currently earning-in an option from Rio Tinto Mining and Exploration Ltd. ("RT") for 100% of the Pukaqaqa project.

Tiomin can earn 49% of Milpo's option interest in the property by contributing a total of US\$2.0 million, consisting of US\$1.0 million in exploration expenditures of which US\$300,000 is to be contributed in the first year of the agreement, and an additional \$700,000 before October 1, 2007. In addition, Tiomin will make US\$1.0 million in cash payments consisting of US\$100,000 in January 2005 and US\$400,000 in July 2005 (paid on June 30, 2005), as per the agreement between Milpo and RT, and US\$300,000 towards the purchase of the Jupiter claim on behalf of the JV, with the remaining \$200,000 to be applied towards either the balance of property payments to RT or on further exploration work at its discretion.

Once Tiomin has earned in 49% of the option interest, it will share the balance of payments owed to RT equally with Milpo on a pro-rata basis. Effectively, Tiomin's pro-rata share of future property payments will then be US\$700,000 payable on October 1, 2006 and US\$1.0 million on October 1, 2007. The total acquisition cost to Tiomin for its 49% interest in the Pukaqaqa deposit is US\$3.7 million which includes \$1.0 million in new exploration. Milpo will be the Operator of the JV.

## Selected Annual Financial Information

The following table provides selected audited consolidated financial information that should be read in conjunction with the audited consolidated financial statements of the Company.

	Year ended Dec.31, 2004	Year ended Dec.31, 2003	Year ended Dec.31, 2002
	\$	\$	\$
<b>Operating expenses</b>	1,626,526	2,362,923	1,156,692
<b>Net loss</b>	1,610,957	2,309,887	1,115,922
<b>per share</b>	0.01	0.03	0.02
<b>Total assets</b>	21,064,237	17,971,434	16,477,317
<b>Long term debt</b>	386,262	420,931	439,661

### Results of Operations

Tiomin's loss from operations for the second quarter ended June 30, 2005, totaled \$772,945 (\$0.01 per share) and \$383,209 (\$0.00 per share) for the same period in 2004. For the six month period ended June 30, 2005 and 2004 the loss was \$1,282,527 (\$0.01 per share) and \$728,104 (\$0.01 per share) respectively.

### Salaries and other compensation

Salaries and compensation expenses increased to \$432,265 in the second quarter from \$186,599 in 2004 through salary increases and additional staffing in 2005. For the six months ended June 30, 2005 and 2004 salaries and compensation were \$780,622 and \$376,617 respectively. Included in salaries and compensation is an amount of \$493,667 (2004 - \$88,105), which is as a result of stock options being expensed. Effective January 1, 2003, the Company accounts for employee stock-based compensation by measuring all awards granted on or after January 1, 2003 under the fair value based method of accounting, using the Black - Scholes pricing model. Consideration paid on the exercise of stock options and warrants is credited to share capital.

### Office costs

Office costs for the quarter ended June 30, 2005 and 2004 were \$38,140 and \$54,826 respectively and \$76,071 and \$88,618 for the six months ended June 30, 2005 and 2004 respectively.

### **Foreign exchange loss (gain)**

Foreign exchange losses (gains) were \$62,320 and \$738 for the quarter ended June 30, 2005 and 2004 respectively and \$35,677 and \$3,510 for the six months ended June 30, 2005 and 2004 respectively. These losses are a result of fluctuations in the various currencies and any exchange gain or loss that arises on translation is included in the determination of net loss for the period.

### **Depreciation**

Depreciation charges remained constant for the three and six months period ended June 30, 2005 and 2004. Depreciation of \$3,199 and \$3,013 and \$5,994 and \$6,707 were charged for the respective periods.

### **Travel**

Travel expenses have decreased over 2004 due to less travel being undertaken by Head Office Personnel. These expenses are expected to increase in the next two quarters with the increased activity at the Kwale project in Kenya. Amounts totaling \$10,063 and \$31,516 and \$27,330 and \$68,878 were expensed for the three and six month periods ended June 30, 2005 and 2004 respectively.

### **Stock exchange fees**

Amounts totaling \$11,800 and \$11,040 have been expensed for the six months ended June 30, 2005 and 2004 respectively.

### **Shareholders' information**

For the three and six month periods ended June 30, 2005 and 2004 amounts totaling \$49,938 and \$48,596 for the three month period and \$73,038 and \$54,203 for the six month period were expensed.

### **Promotion**

Promotion expenses for the six month period ended June 30, 2005 have increased compared to the same period in 2004 due to increased promotional activities and trade shows. For the quarter ended an amount of \$41,743 (2004 - \$21,780) and for the six months \$90,743 (2004 - \$63,986) were expensed.

### **Professional fees**

During the quarter ended June 30, 2005 and 2004, \$54,601 and \$23,591 and \$70,228 and \$40,320 were expensed for the three and six months respectively.

### **Capital tax and other fees**

Zero capital tax was expensed for the three and six months ended June 30, 2005 and an amount of \$445 was expensed during 2004.

## General exploration

General exploration expensed for the three and six month period ended June 30, 2005 and 2004 was \$99,362, \$12,637 and \$111,013, \$14,397 respectively. Management spends a great deal of time assessing various projects, which often also requires outside expertise and travel to conduct the necessary due diligence. These amounts are charged to general exploration until such time as a project is acquired or a joint-venture agreement is entered into with another party.

Administrative expenses for 2005 are expected to remain at 2004 levels until mid 2005 when the Company may incur additional expenses should it decide to proceed with the construction of the Kwale project and additional key personnel are hired.

## Summary of Quarterly Results

The following summary of quarterly results is unaudited and has been prepared in accordance with Canadian GAAP.

	<b>2<sup>nd</sup> Quarter Jun, 30 , 2005</b>	<b>1<sup>st</sup> Quarter Mar. 31, 2005</b>	<b>4<sup>th</sup> Quarter Dec. 31, 2004</b>	<b>3<sup>rd</sup> Quarter Sep. 30, 2004</b>
<b>Total operating expenses</b>	\$791,886	\$490,630	\$474,561	\$423,244
<b>Net loss</b>	772,945	489,466	467,645	415,208
<b>Net loss per share</b>	0.01	0.00	0.01	0.00

	<b>2<sup>nd</sup> Quarter Jun. 30, 2004</b>	<b>1<sup>st</sup> Quarter Mar. 31, 2004</b>	<b>4<sup>th</sup> Quarter Dec. 31, 2003</b>	<b>3<sup>rd</sup> Quarter Sep. 30, 2003</b>
<b>Total operating expenses</b>	\$383,296	\$345,425	\$1,540,584	\$310,111
<b>Net loss</b>	383,209	344,895	1,496,757	308,422
<b>Net loss per share</b>	0.00	0.00	0.03	0.00

## **Cash Flow and Liquidity**

During the second quarter ended June 30, 2005, cash used in operations was \$634,934 (2004 -\$994,067) and for the six months ended June 30, 2005 cash used in operations was \$723,250 (2004 - \$882,167). Tiomin had a working capital surplus of \$3,987,931 at June 30, 2005 compared to \$1,211,991 at December 31, 2004.

## **Capital Resources**

The Company currently has no source of income and no immediate cash flow from its operations. The Company receives cash for use in operations from issuing common shares, investment income and occasional sales of selected assets. Tiomin has been successful in accessing the equity markets in the past and while there is no guarantee that this will continue to be available, management has no reason to expect that this will diminish in the near future.

On February 18, 2005, the Company entered into an agreement to raise gross proceeds of \$7 million through an underwritten private placement of common shares and attached warrants which closed on March 8, 2005. Each unit offered at \$0.40 consisted of one common share and one-half of one common share purchase warrant, exercisable at \$0.50 per warrant until March 8, 2007. The Company also issued 1,050,000 compensation options to the underwriters. Each compensation option entitles the holder to purchase one unit (a "Compensation Unit") at a price of \$0.40 at any time up until March 8, 2007. Each Compensation Unit consists of one common share and one-half of one Series J common share purchase warrant. The proceeds of the issue will be used to further advance the Kwale project to the project financing stage and to fund the exploration and option payments of the recently optioned Pukaqaqa copper-gold project in Peru.

Should the Company proceed with production at the Kwale project, the Company will need to raise the necessary funds to commence construction. The recently completed engineering review has outlined an estimated capital requirement of approximately US\$160 million. The engineering review is being critically analyzed and different scenarios are being addressed, which might lead to a reduction in the capital requirements. The Company is in discussion with various financial institutions and is investigating several options to finance the Kwale project including, a combination of debt and equity that is anticipated to be arranged in latter 2005. It should however be noted that there is no guarantee at this time that the Company will be able to raise the funds necessary to start construction.

There are no significant long-term debt obligations as at June 30, 2005, consistent with the prior year. The long-term debt of \$386,000 is comprised mostly of a CIDA grant (as described in note 6 to the unaudited financial statements) that is not repayable until the Company earns in excess of \$5 million from the Kwale project, which is not expected before mid 2007.

## **Capital Expenditure Commitments**

At June 30, 2005 Tiomin had no capital commitments, other than amounts already accrued or reflected in accounts payable.

## **Off-Balance Sheet Arrangements**

Tiomin has no off-balance sheet arrangements.

## **Transactions with Related Parties**

From time to time during the Company's history, directors of the Company have advanced funds to the Company on a short term basis to assist the Company during brief periods of illiquidity. During the first and second quarter of 2004 two directors advanced a total of \$750,000 to the Company on a demand loan basis at an annual interest rate of 10%. The Company repaid these loans, with associated interest of \$19,450, upon the closing of an equity issue on June 16, 2004.

## **Exploration update**

During the second quarter ended June 30, 2005, the Company's focused on the development of its Kenyan mineral sands properties, and the Company continued with its first phase exploration program at Pukaqaqa, Peru as part of its earn-in commitments on the project.

During the quarter, \$1,571,099 million was invested in deferred exploration and mineral properties (capitalized asset). This was slightly more than the previous quarter's investment of \$1,506,719 million and significantly higher than the \$432,021 invested during the corresponding period in 2004. For the six months period ending June 30, 2005 and 2004 an amount of \$3,077,808 and \$1,038,251 was invested in deferred exploration and mineral properties (capitalized asset) respectively.

The Kenyan mineral sands properties remain Tiomin's priority and the detailed design and costing of the project by Ausenco in preparation for submission of a lump-sum turn-key bid for the construction of the project continued through the second quarter. Also, during the second quarter, Tiomin incurred expenditures of \$204,613 for the first phase exploration program underway on the Pukaqaqa project in Peru and mineral property acquisition payments of \$500,200. For the six months ended June 30, 2005, Tiomin incurred expenditures for the first phase exploration program underway on the Pukaqaqa project in Peru of \$953,556 and mineral property acquisition payments of \$864,173.

## **Proposed Transactions**

There are no decisions by the board of directors of Tiomin with respect to any imminent or proposed transactions.

## **Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures as well as the value of stock-based compensation. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options

and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model, however the future volatility is uncertain and the model has its limitations.

The Company's recoverability of the recorded value of its mineral properties and associated deferred expenses 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. The Company is in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

### **Outstanding share data**

As at June 30, 2005, the Company had issued and outstanding 134,642,425 common shares and 158,082,954 issued on a fully diluted basis (December 2004 –116,467,525). Included in the fully diluted number are 9,275,000 warrants, 7,120,000 stock options and 1,050,000 compensation units that are described in detail in note 7 to the financial statements and which, if exercised in their entirety, would contribute a further \$10.8 million to the Company in the future.

During the second quarter of 2005, 350,000 stock options were granted and 300,000 were cancelled. For the six month period ended June 30, 2005, 3,370,000 stock options were granted at market price on the dates of the grants at an average exercise price of \$0.38. During the first quarter, 674,900 warrants associated with previous financings were exercised for proceeds of \$182,000. No warrants were exercised in the second quarter of 2005.

### **General**

The Company also discloses information related to its activities in the Annual Information Form ("AIF"). The AIF and other pertinent information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com)

#### Cautionary Note

Some of the statements contained in this report constitute forward-looking statements that describe the Company's future plans, objectives or goals, including management's expectation of stated conditions or results. Such forward-looking statements, including but not limited to, mineral reserves or resources, results of exploration, capital costs, estimated future production and costs and the Company's financial condition and prospects, may cause actual results, performance or achievements of the Company to be materially different from those currently anticipated in such statements by reason of factors such as; the productivity of the Company's mining properties, changes in general economic or political conditions, conditions in the financial markets, changes in demand or pricing for its anticipated products, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments in domestic and foreign areas in which Tiomin operates. This list is not exhaustive of the factors that may affect any of the Company's forward -looking statements and should be considered carefully and undue reliance should not be placed on these forward-looking statements.