

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

### **For the Years Ended December 31, 2005 and 2004**

This management's discussion and analysis of the financial results of Tiomin Resources Inc.'s operations for the fourth quarter and year ended December 31, 2005 should be read in conjunction with the audited consolidated financial statements and related notes that follow. This discussion covers the most recently completed year and the subsequent period to March 8, 2006. The consolidated financial statements and the related notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 Resources Inc. ("Tiomin" or the "Company") 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.

#### **Overview**

Tiomin 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 by mid-2004 and the report was issued in February 2005. The review confirmed the economic viability of the Kwale project. Revised capital costs, including contingencies, are expected to be approximately US\$175 million excluding interest and financing costs, which is expected to be an additional US\$20.0 million. Capital payback is approximately four years.

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 year ended December 31, 2005, the Company signed major sales agreements with two large reputable Chinese companies. The first contract signed in June 2005 provides for the sale of 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. The second contract signed in November 2005 provides for the sale of all unsold rutile and zircon over the life of the mine. Efforts will continue to secure further contracts

of sale for the ilmenite production during the course of 2006. Approximately 92% of the production from Kwale for the life of the mine has been sold.

The Company has engaged Ausenco International Pty Ltd (ABN 98 096 016 849) of Garden City Office Park, 2404 Logan Road, Eight Mile Plains, Queensland, Australia (“Principal Consultant” or “Ausenco”) to construct the Kwale plant. Ausenco will provide engineering, procurement and construction management, expertise in design, project management, construction, completion and commissioning the processing plant and facilities. Local infrastructure, which includes the Port facilities road access and other infrastructure, will be managed by local contractors.

Tiomin is in the final stages of arranging the project financing to enable construction to commence in the second quarter of 2006. The project financing will consist of senior debt in the amount of US\$120.0 million, which will be provided by a number of commercial and developmental banks. It is expected that the balance of \$75.0 million will be arranged through a combination of subordinated debt and equity to minimize dilution to our shareholders.

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. (“RTZ”) 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 spent 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 September 30, 2005), as per the agreement between Milpo and RTZ, 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 RTZ 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 of exploration expenditures 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 consolidated financial statements of the Company.

	Year ended Dec.31, 2005 \$	Year ended Dec.31, 2004 \$	Year ended Dec.31, 2003 \$
<b>Operating expenses</b>	2,821,794	1,626,526	2,362,923
<b>Net loss</b>	2,776,761	1,610,957	2,309,887
<b>Net loss per share</b>	0.02	0.01	0.03
<b>Total assets</b>	32,013,677	21,064,237	17,971,434
<b>Long-term debt</b>	460,528	386,262	420,931

## **Results of Operations**

As the Company is not in production on any of its properties it did not have significant revenues or cash flow from operations.

During the fourth quarter ended December 31, 2005, the Company's operations consisted of the continued development of its Kenyan mineral sands properties and its interest in the Pukaqaqa copper-gold deposit located in Peru. During the quarter, \$2,121,313 was invested in deferred exploration in the Kwale project with \$351,280 being invested in the Pukaqaqa project (capitalized asset) as work on the projects continues. This was a significant increase over the previous quarter's investment of \$894,964 (Kenya and Pukaqaqa) and \$786,223 more than the amount invested during the corresponding period in 2004. For the year ended December 31, 2005, the Company invested \$5,189,887 (2004 - \$2,046,364) in deferred exploration and development. During 2005, the Company acquired mineral properties totaling \$1,235,780 (capitalized asset). This was mainly attributable to the acquisition costs related to the Pukaqaqa property. The Company also spent \$252,660 on fixed assets, which was mainly attributable to vehicles being purchased for the Kwale project and the refurbishing of the Kenyan offices.

Tiomin's loss from operations for the fourth quarter ended December 31, 2005, totaled \$903,442 (\$0.00 per share) compared to \$474,561 (\$0.01 per share) for the same period in 2004. For the year ended December 31, 2005 and 2004 the loss was \$2,776,761 (\$0.01 per share) and \$1,610,957 (\$0.01 per share), respectively. Annual operating expenses in 2005, excluding non-cash foreign exchange losses were \$2,747,826 compared to \$1,494,889 in 2004.

### **Salaries and other compensation**

Salaries and other compensation expenses increased to \$1,768,847 during 2005 from \$836,593 in 2004. This was due to additional staff being employed for the Kwale project and increases in salaries during 2005. Included in salaries and other compensation is a non-cash amount of \$948,282 (2004 - \$195,739), 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 year ended December 31, 2005 and 2004 were \$164,559 and \$139,705, respectively, which equates to approximately a 17.8% increase. With the increased activity within the organization during the year the increase is modest.

### **Foreign exchange loss**

Foreign exchange losses were \$28,935 and \$116,068 for the years ended December 31, 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 year.

## **Depreciation**

During the years ended December 31, 2005 and 2004, depreciation charges of \$12,945 and \$12,249 were charged for the respective periods. These amounts remained constant for both years. During the year ended December 31, 2005, \$28,552 was capitalized to deferred exploration and development.

## **Interest**

Interest charges for the years ended December 31, 2005 and 2004 were \$4,063 and \$19,575, respectively. The amounts incurred during 2005 were for leased vehicles through the Company's wholly-owned subsidiary Tiomin Kenya Limited. During 2004, the Company borrowed a total of \$750,000 from two of its directors, which were repaid on June 16, 2004 and included \$19,450 of interest.

## **Travel**

Travel expenses have increased over 2004 and are not expected to decrease during 2006 due to personnel and consultants traveling to Kenya and Australia for the Kwale project. During 2005 and 2004 amounts totaling \$177,259 and \$137,392, respectively were expensed.

## **Stock exchange fees**

Amounts totaling \$12,800 and \$11,040 were expensed for the years ended December 31, 2005 and 2004, respectively. The increase was in line with inflation and increased activity.

## **Shareholders' information**

For the years ended December 31, 2005 and 2004, amounts totaling \$95,344 and \$71,977 were expensed. We do not expect to see a substantial increase during 2006.

## **Promotion**

Promotion expenses for the year ended December 31, 2005 have increased substantially over 2004 due to increased promotional activities and trade shows. The Company is spending significant time and money promoting the various projects in order to raise the necessary funds to construct the Kwale project. Tiomin does not foresee this amount being reduced during 2006 as the Company will continue to be active in its promotional activities. For the years ended December 31, 2005 and 2004 amounts of \$191,885 and \$116,413 were expensed.

## **Professional fees**

Professional fees for the years ended December 31, 2005 and 2004 were \$233,023 and \$72,261, respectively. The Company continues to use experts where required for legal, accounting and tax matters and will continue to do so during 2006.

## **Capital tax and other fees**

During the years ended December 31, 2005 and 2004, \$79 and \$524, respectively were expensed.

### General exploration and write-off

General exploration and write-off expensed for the years ended December 31, 2005 and 2004 were \$132,055 and \$92,729, 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.

### Interest income and other income

Interest income and other income received for the years ended December 31, 2005 and 2004 were (\$45,033) and (\$15,569). The amounts received for both years were mainly from funds invested in interest bearing instruments. This will vary from year to year.

Administrative expenses for 2005 have increased over 2004 mainly due to stock-based compensation, which is \$752,543 higher than in 2004 for the same period. Administrative expenses are expected to increase going into 2006 with the anticipated commencement of construction at the Kwale project, which will result in additional key personnel being hired.

### Summary of Quarterly Results

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

	<b>4<sup>th</sup> Quarter Dec. 31, 2005</b>	<b>3<sup>rd</sup> Quarter Sep. 30, 2005</b>	<b>2<sup>nd</sup> Quarter Jun. 30, 2005</b>	<b>1<sup>st</sup> Quarter Mar. 31, 2005</b>
	\$	\$	\$	\$
<b>Total operating expenses</b>	903,442	635,836	791,886	490,630
<b>Net loss</b>	893,859	620,491	772,945	489,466
<b>Net loss per share</b>	0.01	0.00	0.01	0.00

	<b>4<sup>th</sup> Quarter Dec. 31, 2004</b>	<b>3<sup>rd</sup> Quarter Sep. 30, 2004</b>	<b>2<sup>nd</sup> Quarter Jun. 30, 2004</b>	<b>1<sup>st</sup> Quarter Mar. 31, 2004</b>
	\$	\$	\$	\$
<b>Total operating expenses</b>	474,561	423,244	383,296	345,425
<b>Net loss</b>	467,645	415,208	383,209	344,895
<b>Net loss per share</b>	0.01	0.00	0.00	0.00

## Cash Flow and Liquidity

The following table summarizes the Company's consolidated cash flows and cash on hand:

<i>(in thousands of Canadian dollars)</i>	<b>Three months: December 31, 2005</b>	<b>Three months: September 30, 2005</b>	<b>Three months: June 30, 2005</b>	<b>Three months: March 31, 2005</b>	Fiscal year: 2004
Cash and cash equivalents	5,705	2,325	3,862	6,108	1,050
Working capital	4,607	2,469	3,988	6,080	1,212
Cash provided by (used in) operating activities	641	(341)	(635)	(92)	(1,890)
Cash used by investing activities	(2,349)	(1,193)	(1,595)	(1,517)	(2,154)
Cash provided by (used in) financing activities	5,127	(2)	(17)	6,667	4,625

For the year ended December 31, 2005, Tiomin earned \$4,654,528 of cash compared to \$580,929 for the same period in 2004. Cash earned from operating activities (primarily from an increase in accounts payable) of \$975,588 and from private placements and the exercising of warrants (\$12,840,383) were offset by \$6,653,665 of investing activities in mineral properties, deferred exploration expenditure and the acquisition of fixed assets as well \$995,225 relating to share issue costs. Tiomin had a working capital surplus of \$4,607,108 at December 31, 2005 compared to \$1,211,991 at December 31, 2004.

## Commitments and Contractual Obligations

The Company leases premises in Toronto, which expired on January 31, 2006. As at December 31, 2005, future rental payments net of proceeds were \$10,666. The Company through its subsidiary Tiomin Kenya Ltd. has entered into capital lease agreements. An amount of approximately \$130,095, or monthly average payments of approximately \$4,031, which include interest, are payable until August 2008. In addition, Tiomin Kenya Ltd. has leased office premises for five years for approximately \$89,459, (or approximately \$1,450 per month), and a house for two years for approximately \$43,602, (or approximately \$1,900 per month).

At December 31, 2005, an amount of \$112,174 (2004 - nil) is owed excluding interest of approximately \$17,921 on the capital lease obligation. The long-term debt of \$386,000 is comprised of a Canadian International Development Agency grant (as described in note 5a to the consolidated financial statements) that is not repayable until the Company earns in excess of \$5.0 million from the Kwale project, which is not anticipated until mid-2008.

<b>Contractual Obligations at December 31, 2005</b>	<b>Total</b>	<b>Less than a year</b>		
			<b>1-3 years</b>	<b>4-5 years</b>
<b>Lease of premises</b>	\$ 2,677	\$ 2,677	\$ -	\$ -
<b>Capital lease obligations Kenya</b>	112,174	-	112,174	-
<b>Lease of office premises Kenya</b>	86,338	-	54,322	32,016
<b>Lease of house Kenya</b>	38,424	-	38,424	-
<b>CIDA Grant</b>	386,000	-	386,000	-
<b>Total Contractual Obligations</b>	<b>\$ 625,613</b>	<b>\$ 2,677</b>	<b>\$ 590,920</b>	<b>\$ 32,016</b>

## 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 January 6, 2005, 674,900 warrants due to expire on January 10, 2005 were exercised at \$0.27 for proceeds totaling \$182,223.

On February 18, 2005, the Company entered into an agreement to raise gross proceeds of \$7.0 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. Issue costs related to this equity financing amounted to \$808,305.

Included in share issue costs is an amount of \$276,892 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 3%, expected dividend yield of nil, expected volatility of 54.1% and expected option life term of two years.

On December 15, 2005, the Company announced that it had closed a private placement of \$5,658,160. The equity financing consisted of 15,717,111 units priced at \$0.36. Each unit entitles the holder to receive one common share of the Company and one-half common share purchase warrant with each full warrant convertible into one common share of the Company for \$0.50 until June 14, 2007. In addition, the Company also granted one right to acquire an additional one-half of one common share purchase warrant. Each right entitles the holder to acquire one-half of one Bonus Warrant for no additional consideration in the event that prior to April 14, 2006 the Company announces an offering of common shares or securities convertible into common shares at a purchase price (or exercise price) of less than \$0.36 (the "New Issue"). Each whole Bonus Warrant, if used, will entitle the holder to acquire one common share at \$0.50 per share for a period expiring on the earlier of (i) 18 months after the closing date of the New Issue and (ii) December 14, 2007. The Company also issued to Agents compensation options entitling the Agents to acquire, in aggregate, 943,027 units at a price of \$0.36 per unit for a period expiring on June 14, 2007 (the "Compensation Units"). Each Compensation Unit has the same attributes as the Units sold under the offering. Issue costs related to this equity financing amounted to \$521,704.

Included in share issue costs is an amount of \$57,892 estimated at the date of grant using the Black-Scholes pricing model for the Compensation Units issued to the underwriters with the following assumptions: risk free interest rate of 4%, expected dividend yield of nil, expected volatility of 25.7% and expected option life term of 18 months.

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\$175 million. The Company is currently in discussion with various financial institutions and anticipates having the necessary debt and equity financing in place during the second half of 2006. The Company anticipates beginning construction at the Kwale project during the second quarter of 2006. The reader should, however, be cautioned that there is no guarantee at this time that the Company will be able to raise the funds necessary to start construction.

### **Capital Expenditure Commitments**

At December 31, 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 issued on September 16, 2004.

### **Exploration update**

During the year ended December 31, 2005, the Company 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.

For the year ended December 31, 2005, an amount of \$6,401,005 (2004 - \$2,126,500) was invested in deferred exploration and mineral properties (capitalized asset). Of this amount, \$1,456,693 was invested in Pukaqaqa and the balance in the Kwale project.

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 an Engineering, Procurement and Construction Management contract (EPCM) bid for the construction of the project continued through the fourth quarter. For the year ended December 31, 2005, Tiomin incurred mineral property acquisition payments of \$1,235,780 (2004 - \$89,768).

### **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 December 31, 2005, the Company had issued and outstanding 150,359,536 common shares (2004 - 116,467,525) and 189,750,203 issued on a fully diluted basis (2004 - 127,187,954). Included in the fully diluted number are 31,900,668 warrants, 6,410,000 stock options and 1,050,000 compensation units that are described in detail in note 6 to the consolidated financial statements and which, if exercised in their entirety, would contribute a further \$18.3 million to the Company in the future.

For the year ended December 31, 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 and 1,010,000 were cancelled or expired. During the first quarter of 2005, 674,900 warrants associated with previous financings were exercised for proceeds of \$182,223. No warrants were exercised in the second, third or fourth quarter of 2005 and 5,965,529 warrants, which were due to expire on December 15, 2005, were extended to June 15, 2006.

## **Subsequent Event**

Subsequent to the year ended December 31, 2005, 305,000 stock options were exercised for total proceeds of \$82,150.

## **Uncertainties and Risk Factors**

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations

may be subject to risks including labour disputes, environmental hazards, safety issues, geological issues, weather conditions, and changing regulatory requirements as examples. Tiomin is subject to competitive risk as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for the precious metals and the economic forces that influence capital markets. As a result the securities of Tiomin must be considered speculative. A prospective investor in Tiomin should carefully consider the following factors:

#### Exploration and Development

Exploration for gold, copper and other minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that exploration efforts will result in the discovery of mineralization or that any mineralization discovered will result in the definition reserves. If reserves are developed, it may take a number of years and substantial expenditures from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. No assurance can be given that exploration programs will result in the definition of reserves or that reserves may be economically mined.

The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors, which are beyond the control of the Company.

All exploration and development evaluation expenditures incurred in Tiomin, prior to establishing that a property has economically recoverable reserves are capitalized.

#### Operating Hazards and Risks

Mineral exploration and mining involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The work that the Company proposes to undertake will be subject to all the hazards and risks normally incidental to exploration, development and production, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions and cave-ins, are all the risks involved in the operation of mines and the conduct of exploration programmes. Although the Company has secured liability insurance and will, when appropriate, secure property insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs or uninsured losses that could have a material adverse effect upon its financial condition.

#### Regulations and Mining Law

Mining operations and exploration activities are subject to extensive local and overseas' laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, protection and remediation of the environment, reclamation, mine safety, toxic substances and other matters. Compliance with such laws and regulations increases the costs of planning, designing, developing, constructing, operating and closing mines and other facilities. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the Company would not proceed with or would postpone the development and operation of a mine or mines.

## Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which they operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Tiomin's operations or result in substantial costs and liabilities in the future.

## Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions. There can be no assurance that Tiomin will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

## Title to Assets

Although the Company believes that it holds valid title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned.

## Financing Risks

Tiomin has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration or to fulfill its obligations under any applicable agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration plans.

## Metal and Mineral Prices

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of mineral sands and other metals or interests related thereto. The price of those commodities has fluctuated in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of mineral sands and precious metals makes it difficult to predict the economic viability of the Company's operations.

## Governmental Regulation

Exploration, development and mining of the properties will be affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law; (iii) restrictions on production; price controls; and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the exploration activities proposed for the properties. To the extent such approvals are required and not obtained, the

Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Failure to comply with applicable laws, regulations and requirements may result in enforcement action against the Company, including orders calling for the curtailment or termination of operations on the properties, or calling for corrective or remedial measures requiring considerable capital investment. Parties engaged in mineral exploration and mining activities may be subject to civil and criminal liability as a result of failure to comply with applicable laws and regulations.

Amendments to current laws, regulations and permitting requirements affecting mineral exploration and mining activities could have a material adverse impact on the Company's operations and prospects.

#### No Dividends

Tiomin has not paid any dividends on its Common Shares during the past five years. Any decision to pay dividends on its shares in the future will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate in the circumstances.

#### Dependence on Key Employees

Tiomin's future growth and its ability to develop depend, to a significant extent, on its ability to attract and retain highly qualified personnel. Tiomin is highly dependent on the principal members of its senior management group and the loss of their services might impede Tiomin's business strategy and growth. The loss of one or more key employees could have an adverse effect on the growth and profitability of Tiomin.

#### Conflicts Of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or may have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

#### Competition

The mineral industry is intensely competitive in all its phases. Tiomin competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

#### Share Price Fluctuations

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price which would have not

necessarily been related to the operating performance, underlying asset values or prospect of such companies. There can be no assurance that continual fluctuation in share price will not occur.

### **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.

### **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.