



**TIOMIN RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

### **For the Quarters Ended June 30, 2006 and 2005**

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 six months ended June 30, 2006 and should be read in conjunction with Tiomin's audited consolidated financial statements and related notes as at December 31, 2005. Tiomin prepares and files its financial statements with Canadian generally accepted accounting principles (Canadian 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 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 9, 2006.

#### **Overview**

This discussion and analysis of the consolidated operating and financial condition of Tiomin for the six months ended June 30, 2006 and June 30, 2005, 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 18 King Street East, Suite 810, Toronto, Ontario, Canada M5C 1C4.

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 October 2003, the Company engaged Ausenco Limited ("Ausenco") 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 to Tiomin in February 2005. The review confirmed the economic viability of the Kwale project. During 2005, Ausenco incorporated a number of changes, mainly with respect to capital and operating costs. Their report was filed on SEDAR in March 2006. Revised capital costs, including contingencies, are expected to be approximately US\$175 million excluding interest and financing costs, which are expected to be an additional US\$20 million. Capital payback is approximately four years.

Substantial progress was made during 2005 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 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. Approximately 92% of the production from Kwale for the life of the mine has been sold. No additional ilmenite was sold during the six months ended June 30, 2006.

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 (“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.

On April 4, 2006, Tiomin signed a mandate letter with a syndicate of three financial institutions to arrange and underwrite an 8-year senior secured term loan of US\$120.0 million. The underwriting commitments provided are subject to finalization of due diligence and final internal approval of each of the underwriters, which is expected to be completed by July 31, 2006.

On April 11, 2006, the Company entered into a memorandum of understanding (“MOU”) with Jinchuan Group Ltd. (“Jinchuan”) of the People’s Republic of China, whereby, among other things, Jinchuan intends to provide Tiomin Kenya Limited with a US\$35 million subordinated debt facility. The debt will amortize over the life of the Kwale project. Jinchuan will have the ability to acquire up to US\$35 million of shares in Tiomin at all times during the life of the debt either by converting some or all of the then outstanding debt and/or paying cash. The price for such conversion or purchase will be \$0.65 per common share.

During the quarter ended June 30, 2006, Jinchuan Group Ltd. (“Jinchuan”) of the People’s Republic of China signed a subscription agreement and closed a private placement on April 27, 2006. The equity financing consisted of 16,520,000 units priced at \$0.45 per unit. 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 \$0.55 per share until July 27, 2007. In addition, the Company 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 December 31, 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 \$0.45 per share (the “New Issue”). Each whole Bonus Warrant, if used, will entitle the holder to acquire one common share at \$0.55 per share for a period of 15 months after the closing date of the New Issue. As a result, Jinchuan holds approximately 9.9% of Tiomin’s outstanding common shares, excluding the exercise of warrants and bonus warrants.

On May 9, 2006, Tiomin filed a preliminary short form prospectus with the securities regulatory authorities in certain of the provinces and territories of Canada in connection with the offering and filed an amended and restated preliminary short form prospectus with the securities regulatory authorities in all of the provinces and territories of Canada on May 17, 2006.

On May 26, 2006, Tiomin announced that it had priced the previously announced best efforts public equity offering (the “Offering”) to raise approximately \$50 million to be used to construct and develop the Company’s Kwale titanium mineral sands project in Kenya. The Offering will consist of approximately 166,666,667 Subscription Receipts at a price of \$0.30 per Subscription Receipt with each Subscription Receipt entitling the holder to acquire, for no additional consideration, one Common Share and one-half of one Series O common share purchase warrant of Tiomin (each whole Series O common share purchase warrant a “Warrant”). Each Warrant shall entitle the holder to acquire an additional common share at a price of \$0.36 per common share for a period of 18 months. In addition, the Agents were granted an option exercisable up until closing, to increase the size of the Offering by up to \$10 million.

On June 6, the Company announced the Closing of the Offering and the Agent exercised the option to increase the Offering by \$10.0 million to \$60 million. The Offering will consist of approximately 200,000,000 Subscription Receipts at a price of \$0.30 per Subscription Receipt as described above.

Wellington West Capital Markets Inc. and Paradigm Capital Inc. were the co-lead agents and Jennings Capital Inc. participated in the syndicate for the Offering.

100% of the gross proceeds of the Offering has been deposited with Computershare Trust Company of Canada and will be held in escrow pending satisfaction of certain release conditions (the “Release Conditions”), including in particular the finalization and availability of Tiomin’s previously announced senior debt facility in the amount of US\$120 million and subordinated debt facility in the amount of US\$35 million. If the Release Conditions are satisfied on or before July 31, 2006, the Subscription Receipts will be automatically exercised into common shares and Warrants and the escrowed funds will be released to the Company. If the Release Conditions are not satisfied on or before July 31, 2006, holders of Subscription Receipts will have the right to require Tiomin to redeem their Subscription Receipts for the issue price plus

accrued interest, and the escrowed funds will be used to satisfy the redemption price for the Subscription Receipts which are redeemed.

A non-refundable amount of \$1.8 million was paid to the Agents on the Closing of the Offering and the balance of \$1.8 million will be paid if and when the Release Conditions have been met. Share issue costs of \$2.34 million have been included in Deferred Financing Charges and will be re-allocated to Share issue costs on completion of the transaction. This amount with the recently signed mandate for the senior debt facility of US\$120 million mentioned above and the US\$35 million subordinated debt facility from Jinchuan will be used mainly to complete the US\$175 million project financing requirements for the construction and startup of the Kwale titanium mineral sands project in Kenya. The remaining funds will be used for payment of financing costs associated with the senior debt facility, termination of the Kenyan properties royalty interest, exploration work at its other titanium mineral sands properties and at its advanced-stage Pukaqaqa copper-gold project in Peru, and general corporate purposes.

In April 2006, the Company entered into an agreement with Barrick to buy back the 20-per-cent net profit interest royalty from Barrick's subsidiary Pangea Goldfields Inc.

Pursuant to the terms of the buy-back, Tiomin has agreed to make a cash payment of US\$2.0 million and issue five million common shares of the Company to Pangea at the date of closing, which is to be five business days after availability of drawdown on the project debt financing for the Kwale project in Kenya. If the closing does not take place by September 27, 2006, the agreement will be terminated without payment and Pangea will retain the royalty interest. Tiomin has also agreed to make a cash payment of US\$1.0 million, only if and when commercial production is reached, for each of the other properties (Kilifi, Vipingo and Mambui), or if Tiomin sells an interest in any such property to a third party, Pangea will have the right of first refusal on any sale of interest in the four properties mentioned above.

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.

On May 2, 2006, the Company announced that it has acquired a new reconnaissance exploration license for mineral sands along the coastline of Tanzania.

The license was acquired under an option agreement with Karoo Exploration Services Company Limited of Dar es Salaam. Tiomin has agreed to pay Karoo US\$1,000 upon completion of filing and issuance of the reconnaissance exploration license and make annual payments of US\$2,000 until the Mineral Interest expires or is surrendered. Tiomin can acquire 100% interest in this exploration license upon the payment of US\$20,000 at any time.

## **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 six months ended June 30, 2006, the Company's operations consisted mainly 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 ended the Company acquired an option to acquire three prospecting licenses in Tanzania through Karoo Exploration Services Company Limited a company incorporated in Tanzania.

Tiomin's loss from operations for the second quarter ended June 30, 2006 was \$430,779 (\$0.00 per share) and \$772,945 (\$0.01 per share) for the same period in 2005. For the six month period ended June 30, 2006 and 2005, the loss was \$1,712,015 (\$0.01 per share) and \$1,262,411 (\$0.01 per share) respectively. Operating expenses for the quarter ended June 30, 2006, excluding non-cash foreign exchange losses, were \$577,794 compared to \$729,566 in 2005 and \$1,694,869 (2005 - \$1,246,839) for the six months ended June 30, 2006 and 2005 respectively.

For the six months ended June 30, 2006, \$2,117,076 (2005 - \$2,173,610) was invested in deferred exploration in the Kwale project. During the quarter ended June 30, 2006, \$1,075,883 (2005 - \$204,613) and for the six months ended June 30, 2006, \$1,117,310 (2005 - \$953,556) was invested in the Pukaqaqa project (capitalized asset) as work on the projects continues. During the six months ended June 30, 2006, the Company acquired mineral properties totaling \$547,553 (capitalized asset). This was attributable to the acquisition costs related to the Kwale project. The Company also spent \$219,734 on fixed assets, which was mainly attributable to computers and equipment purchases.

### ***Salaries and other compensation***

Salaries and other compensation expenses for the three and six months ended June 30, 2006 increased to \$188,392 and \$992,881 compared to \$432,520 and \$780,622 for the same period in 2005 as a result of increased activities at the Kwale project, which required additional staff to advance the project towards construction. Included in salaries and other compensation for the three and six months period ended June 30, 2006 is a non-cash amount of \$25,333 and \$670,036 compared to \$285,102 and \$493,667 for the same periods in 2005, which is as a result of stock options being expensed.

### ***Office costs***

Office costs for the quarter and six months ended June 30, 2006 were \$44,655 and \$86,440 compared to \$38,140 and \$76,071 during 2005. For the six months this equates to approximately a 14% increase over 2005 and is mainly a result of the increased activity within the organization.

### ***Foreign exchange loss***

Foreign exchange losses were (\$101,702) and \$84,551 for the three and six months ended June 30, 2006 compared to \$62,320 and \$35,677 for the same periods in 2005. 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***

During the quarters ended June 30, 2006 and 2005, depreciation charges of \$10,695 and \$3,199 and \$14,384 and \$5,994 for six month period ended June 30, 2006 and 2005. These amounts remained constant for both years. For the six months ended June 30, 2006, the Company has acquired additional fixed assets of \$219,734, which will result in additional depreciation charges in the future. During the six months ended June 30, 2006, \$12,924 was capitalized to deferred exploration and development.

### ***Interest***

Interest charges for the quarters ended June 30, 2006 and 2005 were \$2,618 and \$nil, respectively and \$5,605 and \$nil for the six month period ended June 30, 2006 and 2005. The amounts incurred during 2006 are for leased vehicles through the Company's wholly-owned subsidiary Tiomin Kenya Limited, acquired in the last quarter of 2005.

### ***Travel***

Travel expenses have increased substantially over 2005 and are expected to increase during the last six months of 2006 due to personnel and consultants traveling to Kenya and Australia for the construction and development of the Kwale project. During the three and six months ended June 30, 2006 and 2005, amounts totaling \$103,532 and \$175,591 for 2006 and \$10,063 and \$27,330, respectively were expensed.

### ***Stock exchange fees***

Amounts totaling \$14,571 and \$11,800 were expensed for the six months ended June 30, 2006 and 2005, respectively. No amounts were expensed during the quarter ended June 30, 2006. The increase was in line with inflation and increased activity.

### ***Shareholders' information***

For the quarters ended June, 2006 and 2005, amounts totaling \$64,905 and \$49,938 were expensed compared to \$93,103 and \$73,038 which were expensed for the six month period ended June 30, 2006 and 2005 respectively.

### ***Promotion***

Promotion expenses for the three and six months ended June 30, 2006 were \$95,646 and \$140,844 compared to \$41,743 and \$90,743 for the same periods in 2005. The Company is spending significant time and money promoting the various projects in order to raise the necessary funds to construct the Kwale project.

### ***Professional fees***

Professional fees for the quarters ended June 30, 2006 and 2005 were \$77,305 and \$54,601, respectively and \$165,555 and \$70,228 respectively for the six month period ended June 30, 2006 and 2005. The Company continues to use experts where required for legal, accounting and tax matters and will continue to do so for the balance of 2006.

### ***General exploration and write-off***

General exploration and write-off expensed for the quarters ended June 30, 2006 and 2005 were (\$9,954) and \$99,362 and \$5,895 and \$111,013 for both the six months ended June 30, 2006 and 2005, 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 quarters ended June 30, 2006 and 2005 were (\$45,313) and (\$18,941) and (\$67,405) and (\$20,105) for the six months ended June 30, 2006 and 2005, respectively. 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 the quarter decreased mainly due to a foreign exchange gain but for the six months ended June 30, 2006 have increased over the same period in 2005 mainly due to stock-based compensation, which is \$176,369 higher than in 2005 for the same period and foreign exchange losses which are \$48,874 higher than in 2005. Administrative expenses are expected to increase for the balance of 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.

	2nd Quarter Jun. 30, 2006 \$	1 <sup>st</sup> Quarter Mar. 31, 2006 \$	4 <sup>th</sup> Quarter Dec. 31, 2005 \$	3 <sup>rd</sup> Quarter Sep. 30, 2005 \$
Total operating expenses	476,092	1,303,328	903,442	635,836
Net loss	430,779	1,281,236	893,859	620,491
Net loss per share	0.00	0.01	0.01	0.00

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

## Cash Flow and Liquidity

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

(in thousands of Canadian dollars)

	Three months: June 30, 2006	Three months: March 31, 2006	Fiscal year: 2005
Cash and cash equivalents	5,742	3,541	5,705
Working capital	4,783	2,762	4,607
Cash used in operating activities	(191)	(951)	(467)
Cash used in investing activities	(1,667)	(1,204)	(6,654)
Cash provided by (used in) financing activities	4,060	(10)	11,775

For the quarter and six months ended June 30, 2006, Tiomin earned/ (used) \$2,201,317 and \$37,377 and (2,246,657) and 2,811,550 of cash for the same period in 2005. During the quarter, the Company issued shares for net proceeds of \$7,581,600 and \$7,663,750 for the six months ended June 30, 2006. Cash increased during the quarter ended June 30, 2006 from operating activities (primarily from an increase in accounts payable of \$226,437). For the six months ended June 30, 2006, 815,000 options were exercised for proceeds of \$229,750. In addition, the Company issued 16,520,000 common shares to Jinchuan, which was discussed earlier in the MD&A for proceeds of \$7,434,000. This was offset by deferred financing charges of (\$3,537,620) and investing activities in mineral properties, deferred exploration expenditure and the acquisition of fixed assets. Tiomin had a working capital surplus of \$4,783,049 at June 30, 2006 compared to \$4,607,108 at December 31, 2005.

## 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 \$99,812, 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 June 30, 2006, an amount of \$88,343 (December 31, 2005 - \$112,174) is owed excluding interest of approximately \$15,056 (December 31, 2005 - \$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.

On February 2, 2006, the Company entered into an office lease for approximately 3,103 square feet of space for five years commencing on July 1, 2006 and ending on August 31, 2011. During the period July 1, 2006 through August 31, 2011, a fixed minimum annual rent of Forty Three Thousand, Four Hundred and Forty-Two Dollars (\$43,442) or \$14 per square foot of the rentable area will be payable in equal monthly installments of Three Thousand, Six Hundred and Twenty Dollars and Seventeen Cents (\$3,620.17) payable in advance on the 1<sup>st</sup> day of each month. Additional rent will be charged for a proportionate share of the costs of the operation, local taxes, utility costs and any special services provided to the tenant.

### **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.

### **Capital Expenditure Commitments**

At June 30, 2006, Tiomin had no capital commitments, other than amounts already accrued or reflected in accounts payable. The Company will however be making capital commitments in the next few months with regards to the Kwale project.

### **Off-Balance Sheet Arrangements**

Tiomin has no off-balance sheet arrangements.

### **Transactions with Related Parties**

During the quarter ended June 30, 2006, there have been no transactions with related parties.

### **Exploration Update**

During the quarter ended June 30, 2006, the Company continued to focus on the development of its Kenyan mineral sands properties.

The Kwale project remains 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 first quarter of 2006. This EPCM contract is expected to be finalized by no later than July 31, 2006 and the construction of the Kwale project is also expected to commence during August of 2006 subject to the closing of the various project debt financings expected to take place by July 31, 2006.

### **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, 2006, the Company had issued and outstanding 167,694,536 common shares (December 2005 - 150,359,536) and 211,106,119 issued on a fully diluted basis (December 2005 - 189,750,203). Included in the fully diluted number are 34,596,583 warrants (December 2005 - 31,900,668), 7,765,000 stock options (December 2005 - 6,410,000) 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 \$21.1 million to the Company in the future. On April 14, 2006, 7,858,556 bonus warrants at \$0.50 were cancelled.

For the six months ended June 30, 2006, 2,600,000 stock options were granted at market price on the dates of the grants at an average exercise price of \$0.40 and 430,000 options were cancelled or expired. During the six months ended June 30, 2006, 815,000 options were exercised.

### **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 programs. 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 and development work 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 and development 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.

## **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 are 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.

**TIOMIN RESOURCES INC.**

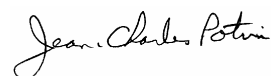
**CONSOLIDATED BALANCE SHEETS**

As at June 30 (Stated in Canadian dollars)

	<b>June 2006 Unaudited</b>	December 2005 Audited
<b>ASSETS</b>		
Current		
Cash and cash equivalents	5,742,018	5,704,641
Receivables	102,780	60,097
Prepaid expenses	31,058	44,500
	<u>5,875,856</u>	<u>5,809,238</u>
Fixed assets, net of accumulated depreciation (note 3)	1,101,183	936,772
Mineral properties (note 4)	2,945,135	2,397,582
Deferred exploration and development (note 4)	24,928,163	22,811,087
Deferred financing costs (6a)	3,596,618	58,998
	<u>32,571,099</u>	<u>26,204,439</u>
	<u>38,446,955</u>	<u>32,013,677</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	1,057,081	1,164,222
Current portion of capital lease obligations (note 9)	35,726	37,908
	<u>1,092,807</u>	<u>1,202,130</u>
Long-term		
Capital lease obligations (note 9)	52,617	74,266
Long-term liabilities (note 5)	386,262	386,262
	<u>438,879</u>	<u>460,528</u>
<b>SHAREHOLDER' EQUITY</b>		
Capital stock (note 6a )	112,753,466	104,994,856
Contributed surplus (note 6d)	2,519,497	1,944,321
Deficit	(78,357,694)	(76,588,158)
	<u>36,915,269</u>	<u>30,351,019</u>
	<u>38,446,955</u>	<u>32,013,677</u>

See accompanying notes

Approved on behalf of the Board:



Jean-Charles Potvin  
Chairman



Oliver Lennox-King  
Director

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

**For the quarters ended June 30 (Stated in Canadian dollars)**

	<i>For the three months</i>		<i>For the six months</i>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Salaries and other compensation (note 6c and 6d)	<b>188,392</b>	432,520	<b>992,881</b>	780,622
Office costs	<b>44,655</b>	38,140	<b>86,440</b>	76,071
Foreign exchange loss/(gain)	<b>(101,702)</b>	62,320	<b>84,551</b>	35,677
Depreciation	<b>10,695</b>	3,199	<b>14,384</b>	5,994
Interest	<b>2,618</b>	-	<b>5,605</b>	-
Travel	<b>103,532</b>	10,063	<b>175,591</b>	27,330
Stock exchange fees	-	-	<b>14,571</b>	11,800
Shareholders' information	<b>64,905</b>	49,938	<b>93,103</b>	73,038
Promotion	<b>95,646</b>	41,743	<b>140,844</b>	90,743
Professional fees	<b>77,305</b>	54,601	<b>165,555</b>	70,228
General exploration and write-off	<b>(9,954)</b>	99,362	<b>5,895</b>	111,013
<b>Total expenses</b>	<b>476,092</b>	791,886	<b>1,779,420</b>	1,282,516
Less: interest income and other income	<b>(45,313)</b>	(18,941)	<b>(67,405)</b>	(20,105)
<b>Net loss for the period</b>	<b>430,779</b>	772,945	<b>1,712,015</b>	1,262,411
Share issue costs	<b>57,521</b>	566,236	<b>57,521</b>	1,080,980
Deficit, beginning of period	<b>77,869,394</b>	73,485,598	<b>76,588,158</b>	72,481,388
<b>Deficit, end of period</b>	<b>78,357,694</b>	74,824,779	<b>78,357,694</b>	74,824,779
Basic and diluted loss per share	<b>\$ 0.00</b>	\$ 0.01	<b>\$ 0.01</b>	\$ 0.01
Basic and diluted weighted average shares outstanding	<b>162,512,228</b>	134,642,425	<b>156,549,453</b>	131,419,002

*See accompanying notes*

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the quarters ended June 30 (Stated in Canadian dollars)

	<i>For the three months</i>		<i>For the six months</i>	
	2006	2005	2006	2005
	Unaudited	Unaudited	Unaudited	Unaudited
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(430,779)	(772,945)	(1,712,015)	(1,262,411)
<i>Add (deduct) non-cash items</i>				
Depreciation charges	10,695	3,199	14,384	5,994
Compensation expense	25,333	285,102	670,036	493,667
Sublease expense	-	(7,998)	(2,666)	(15,996)
Fixed assets written-off	28,015	3,890	28,015	3,890
<i>Change in non-cash working capital</i>				
(Increase) decrease in receivables	(44,057)	6,026	(42,683)	(22,581)
Decrease (increase) in prepaid expenses	(6,806)	17,360	13,442	286,716
Increase (decrease) in accounts payables and accrued liabilities	226,437	(169,568)	(110,354)	(212,529)
	<u>(191,162)</u>	<u>(634,934)</u>	<u>(1,141,841)</u>	<u>(723,250)</u>
<b>INVESTING ACTIVITIES</b>				
Mineral properties acquired	(372,864)	(538,478)	(547,553)	(911,305)
Deferred exploration and development expenditures	(1,083,342)	(1,041,406)	(2,104,152)	(2,175,288)
Fixed assets acquisitions	(211,715)	(15,170)	(219,734)	(29,417)
	<u>(1,667,921)</u>	<u>(1,595,054)</u>	<u>(2,871,439)</u>	<u>(3,116,010)</u>
<b>FINANCING ACTIVITIES</b>				
Cash received for common shares	7,581,600	-	7,663,750	7,182,223
Payment on capital lease obligations	(8,925)	-	(17,952)	-
Share issue costs	(57,521)	(16,669)	(57,521)	(531,413)
Deferred financing costs	(3,454,754)	-	(3,537,620)	-
	<u>4,060,400</u>	<u>(16,669)</u>	<u>4,050,657</u>	<u>6,650,810</u>
Net increase (decrease) in cash and cash equivalents	2,201,317	(2,246,657)	37,377	2,811,550
Cash and cash equivalents, beginning of the period	3,540,701	6,108,320	5,704,641	1,050,113
<b>Cash and cash equivalents, end of period</b>	<b>5,742,018</b>	<b>3,861,663</b>	<b>5,742,018</b>	<b>3,861,663</b>
<b>Supplementary cash flow information</b>				
<b>Interest received</b>	<u>45,313</u>	<u>22,831</u>	<u>67,405</u>	<u>23,995</u>

See accompanying notes

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

## 1. NATURE OF OPERATIONS

Tiomin Resources Inc. (the “Company” or “Tiomin”) and its subsidiaries have mineral exploration properties located mainly in Kenya. The Company is a development stage enterprise and currently has no significant revenue from operations. 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 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 periods. 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 for the period. 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 comprise cash on hand and short-term investments that mature within 90 days from date of acquisition.

### Income Taxes:

Current income taxes are recognized for the estimated income and mining taxes payable for the current period. 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.

If, on the basis of available evidence, it is more likely than not that all or a portion of the future tax asset will not be realized, the future tax asset is reduced by a valuation allowance.

### Stock-based Compensation

The Company has a stock-based compensation plan that is described in note 6(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. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes Option Pricing Model and recognized over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds, together with the amount recognized in contributed surplus are recorded in share capital.

### 3. FIXED ASSETS

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

	<b>June 30, 2006 Cost</b>	<b>June 30, 2006 Accumulated depreciation</b>	<b>Net book value</b>	<b>December 31, 2005 Cost</b>	<b>December 31, 2005 Accumulated depreciation</b>	<b>Net book value</b>
Computers	127,335	94,672	32,663	120,447	82,727	37,720
Furniture and fixtures	97,285	41,116	56,169	97,285	30,650	66,635
Equipment	279,646	45,997	233,649	94,815	60,021	34,794
Vehicles	124,681	38,678	86,003	124,681	19,757	104,924
Land	692,699	-	692,699	692,699	-	692,699
<b>Total</b>	<b>1,321,646</b>	<b>220,463</b>	<b>1,101,183</b>	<b>1,129,927</b>	<b>193,155</b>	<b>936,772</b>

During the six months ended June 30, 2006, \$12,924 (2005 – (\$1,678)) of depreciation was capitalized to deferred exploration and development. Assets with a cost of \$28,015 and \$nil book value were written-off.

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>	
	<b>June 30, 2006 (cost)</b>	December 31, 2005 (cost)	<b>June 30, 2006 (cost)</b>	December 31, 2005 (cost)
Kenya	<b>2,014,740</b>	1,474,554	<b>23,291,693</b>	21,354,394
Peru	<b>923,028</b>	923,028	<b>1,574,003</b>	1,456,693
Tanzania	<b>7,367</b>		<b>62,467</b>	
<b>Total</b>	<b>\$2,945,135</b>	\$2,397,582	<b>\$24,928,163</b>	\$22,811,087

In June 1996, the Company acquired from Pangea Goldfields Inc. (“Pangea”), subsequently purchased by Barrick Gold Corp. (“Barrick”), 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 per annum on exploration. The licenses were renewed in April 2004 and have been renewed in 2006.

In April 1997, the Company acquired a fourth license in Kenya known as Kwale. The license was for an initial term of two years and required the Company to spend a minimum of 500,000 Kenyan shillings per annum on exploration. This license 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 (FOB) royalty to the Government of Kenya.

In April 2006, the Company entered into an agreement with Barrick to buy back the 20-per-cent net profit interest royalty from Barrick’s subsidiary Pangea Goldfields Inc.

Pursuant to the terms of the buy-back, Tiomin has agreed to make a cash payment of US\$2.0 million and issue five million common shares of the Company to Pangea at the date of closing, which is to be five business days after availability of drawdown on the project debt financing for the Kwale project in Kenya. If the closing does not take place by September 27, 2006, the agreement will be terminated without payment and Pangea will retain the royalty interest. Tiomin has also agreed to make a cash payment of US\$1.0 million, only if and when commercial production is reached, for each of the other properties (Kilifi, Vipingo and Mambui), or if Tiomin sells an interest in any such property to a third party, Pangea will have the right of first refusal on any sale of interest in the four properties mentioned above.

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 \$2 million on October 1, 2007. RTZ retains a net smelting return royalty of up to 1%.

According to the joint venture agreement the Company 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 (paid), 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.

On May 2, 2006 the Company announced that it has acquired a new reconnaissance exploration license for mineral sands along the coastline of Tanzania. The license was acquired under an option agreement with Karoo Exploration Services Company Limited of Dar es Salaam. Tiomin has agreed to pay Karoo US\$1,000 upon completion of filing and issuance of the reconnaissance exploration license and make annual payments of US\$2,000 until the Mineral Interest expires or is surrendered. Tiomin can acquire 100% interest in this exploration license upon the payment of US\$20,000 at any time.

## 5. 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 million. 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 \$386,262 of the maximum loan amount.

## 6. CAPITAL STOCK

- a) The Company is authorized to issue an unlimited number of common shares at no par value.

	<u>Shares #</u>	<u>Amount \$</u>
Common shares, January 1, 2005	<b>116,467,525</b>	<b>92,154,473</b>
Private placement	33,217,111	12,658,160
Issued upon exercise of warrants	674,900	182,223
Total common shares, December 31, 2005	<b>150,359,536</b>	<b>104,994,856</b>
Private placement	16,520,000	7,434,000
Issued upon exercise of options	815,000	229,750
Black Scholes value of options exercised	-	94,860
Total common shares, June 30, 2006	<b>167,694,536</b>	<b>112,753,466</b>

On June 16, 2004, the Company, pursuant to a private placement, issued 11,991,051 units at \$0.35 per unit for gross proceeds of \$4,196,868. Each unit consists of one common share and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at \$0.50 per share for a period of 18 months from the issue date. The 5,995,529 warrants were due to expire on December 15, 2005. Approval was obtained from the Toronto Stock Exchange ("TSE") to extend the expiry date of 5,965,529 warrants to June 15, 2006. 30,000 warrants belonging to insiders were not extended.

On January 6, 2005, 674,900 warrants due to expire on January 10, 2005 were exercised at \$0.27 per unit for proceeds totalling \$182,223.

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 per unit. 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 per share until March 8, 2007. In addition, the Company 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 per unit 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. Issue costs related to this equity financing amounted to \$808,305.

Included in share issue costs is \$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 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 per unit. 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 per share until June 14, 2007. In addition, the Company 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 per share (the "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 Issue and (ii) December 14, 2007. These warrants were cancelled on April 14, 2006. The Company also issued to Agents compensation options entitling the Agents to acquire, in aggregate, 943,027 Compensation Units at a price of \$0.36 per unit for a period expiring on June 14, 2007. 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 \$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 of 18 months.

During the six months ended June 30, 2006, 815,000 stock options were exercised for proceeds of \$229,750.

During the quarter ended June 30, 2006, Jinchuan Group Ltd. ("Jinchuan") of the People's Republic of China signed a subscription agreement and closed a private placement on April 27, 2006. The equity financing consisted of 16,520,000 units priced at \$0.45 per unit. 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 \$0.55 per share until July 27, 2007. In addition, the Company 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 December 31, 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 \$0.45 per share (the "New Issue"). Each whole Bonus Warrant, if used, will entitle the holder to acquire one common share at \$0.55 per share for a period of 15 months after the closing date of the New Issue.

On June 6, the Company closed a best efforts public equity offering (the "Offering") to raise approximately \$50 million to be used to construct and develop the Company's Kwale titanium mineral sands project in Kenya. The Offering consists of approximately 166,666,667 Subscription Receipts at a price of \$0.30 per Subscription Receipt with each Subscription Receipt entitling the holder to acquire, for no additional consideration, one Common Share and one-half of one Series O common share purchase warrant of the Company (each whole Series O common share purchase warrant a "Warrant"). Each Warrant shall entitle the holder to acquire an additional common share at a price of \$0.36 per common share for a period of 18 months. In addition, the Agents exercised their option to increase the Offering by \$10.0 million to \$60 million. As a result, the Offering will consist of approximately 200,000,000 Subscription Receipts at a price of \$0.30 per Subscription Receipt as described above.

The gross proceeds of the Offering has been deposited with Computershare Trust Company of Canada and will

be held in escrow pending satisfaction of certain release conditions (the “Release Conditions”), including in particular the finalization and availability of senior debt facility in the amount of US\$120 million and subordinated debt facility in the amount of US\$35 million (see note 10). If the Release Conditions are satisfied on or before July 31, 2006, the Subscription Receipts will be automatically exercised into common shares and Warrants and the escrowed funds will be released to the Company. If the Release Conditions are not satisfied on or before July 31, 2006, holders of Subscription Receipts will have the right to require the Company to redeem their Subscription Receipts for the issue price plus accrued interest, and the escrowed funds will be used to satisfy the redemption price for the Subscription Receipts which are redeemed.

A non-refundable amount of \$1.8 million was paid to the Agents on the Closing of the Offering and the balance of \$1.8 million will be paid if and when the Release Conditions have been met. Share issue costs of \$2.34 million have been included in Deferred Financing Charges and will be re-allocated to Share issue costs on completion of the transaction.

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**

The following is a list of the warrants outstanding as at June 30, 2006. All warrants are convertible into one common share of the Company.

<b>Type</b>	<b>Total Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Series J	9,275,000	\$0.50	Mar 8, 2007
Compensation Warrants	1,050,000	\$0.40	Mar 8, 2007
Series K	7,858,556	\$0.50	Jun 14, 2007
Compensation Warrants	943,027	\$0.36	Jun 14, 2007
Series	8,260,000	\$0.55	July 27, 2007
Bonus Warrant	8,260,000	\$0.55	July 27, 2007
<b>Total</b>	<b>35,646,583</b>	<b>\$0.52</b>	

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 costs. The valuation is done using the Black-Scholes pricing model.

**c) STOCK OPTIONS AND STOCK INCENTIVE PLANS**

Under the Company’s Stock Option Plan (the “Plan”) established in 1996 and approved by shareholders in 1996, 2000, 2004 and 2006, the Company may grant to directors, officers, employees and consultants options to purchase common shares of the Company. The aggregate number of Common shares reserved for issuance under the 2004 Plan was that options were not to exceed 13,000,000.

At the Annual Special Meeting held on June 14, 2006, the shareholders approved the amendment of the Plan from fixing the maximum number of Common Shares reserved for the issuance and replacing it with a “rolling” number, which would result in 10% of the number of issued and outstanding Common Shares of the Corporation at the time of any option grant being reserved. The total number of Common 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 common shares (on a non-diluted basis) under the Plan. Options granted since 1995 have a five-year term and are priced at the Toronto Stock Exchange 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.

At the same meeting held on June 14, 2006, the shareholders approved a Stock Incentive Plan, which includes a Stock Incentive Plan and a Share Purchase Plan for the benefit of directors, officers, employees and consultants of the Corporation. The maximum number of common shares issuable under the Stock Incentive Plan is 16,000,000 common shares, however no more than 8,000,000 common shares may be issued under the Share Bonus Plan and the number of common shares issuable to any one person shall not exceed 20% of the aggregate number reserved. The Share Purchase Plan would allow participants to contribute up to 10% of their base annual salary and that the Corporation would match each participant's contribution and the aggregate funds would be used to purchase common shares of the Corporation.

A summary of the outstanding stock options is presented below.

	June 30, 2006		December 31, 2005	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	6,410,000	0.33	4,050,000	0.41
Granted	2,600,000	0.40	3,370,000	0.36
Exercised	(815,000)	0.28	-	-
Cancelled / expired	(430,000)	0.42	(1,010,000)	0.76
Outstanding, end of the year	7,765,000	0.35	6,410,000	0.33
Options exercisable at the end of period	<b>7,448,333</b>	<b>0.35</b>	<b>3,540,000</b>	<b>0.30</b>

The following table summarizes information about the stock options outstanding as at June 30, 2006.

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding As at June 30, 2006	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable As at June 30, 2006	Weighted Average Exercise Price \$
\$0.23-0.28	1,155,000	1.08	0.24	1,155,000	0.24
\$0.30 - 0.38	4,160,000	3.10	0.34	4,043,333	0.34
\$0.40 - 0.50	2,450,000	4.57	0.41	2,250,000	0.41
	<b>7,765,000</b>	<b>3.26</b>	<b>0.35</b>	<b>7,448,333</b>	<b>0.35</b>

During the six months ended June 30, 2005, 3,370,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate between 3.63% to 3.84%, expected dividend yield of nil, expected volatility between 94.699% and 96.467% and expected option life of five years. Under this method of calculation, the fair value of the 3,370,000 stock options granted in 2005 is \$918,542.

During the six months ended June 30, 2006, 2,600,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of between 3.86% and 4.03%, expected dividend yield of nil, expected volatility between 86.748% and 87.015% and expected option life of five years. Under this method of calculation, the fair value of the 2,600,000 stock options granted during the six months ended June 30, 2006 is \$630,777.

d) **CONTRIBUTED SURPLUS**

	<b>June 30, 2006</b>	December 31, 2005
Balance, beginning of year	<b>1,944,321</b>	661,255
- Amortization of fair value of stock options	<b>630,777</b>	918,542
- Compensation shares vesting	<b>39,259</b>	29,740
- Stock options exercised	<b>(94,860)</b>	-
- Share purchase warrants issued	-	334,784
Balance, end of year	<b>\$2,519,497</b>	\$1,944,321

7. **INCOME TAXES**

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

	<b>2005</b>	2004
	\$	\$
Non-capital losses carried forward	5,462,000	4,887,000
Resource-related deductions	3,620,000	3,575,000
Share issue costs	479,000	185,000
Fixed assets	282,000	276,000
<b>Future tax assets</b>	<b>9,843,000</b>	<b>8,923,000</b>
Valuation allowance	(9,843,000)	(8,923,000)
<b>Net future tax assets</b>	<b>—</b>	<b>—</b>

As at June 30, 2006, 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	1,372,000
2010	1,420,000
2011	3,193,000
2012	3,445,000
	<b>\$16,008,000</b>

8. **LEASE COMMITMENT**

The Company through its subsidiary Tiomin Kenya Limited entered into a lease for its premises in Ukundu, Kenya for five years, commencing August 1, 2005. The monthly rental payable quarterly in advance is 90,000 Kenyan shillings or approximately \$1,450. The rent will increase every two years by 10%.

The Company through its subsidiary has leased two houses on a property located in Ukundu, Kenya for a total monthly rental of 120,000 Kenyan shillings or approximately \$1,900. The lease is for two years and can be renegotiated.

9. **CAPITAL LEASE OBLIGATIONS**

Period ended June 30:		2006
2006		22,794
2007		45,589
2008		31,429
Total minimum lease payments	\$	99,812
Less amount representing interest at 11%		11,469
Present value of net minimum capital lease payments		88,343
Current portion of obligations under capital leases		35,726
	\$	52,617

During 2005, the Company through its subsidiary Tiomin Kenya Limited entered into capital leases of approximately \$145,119 for vehicles and a generator. Interest of approximately \$21,989 relating to the capital lease obligations has been included. During the six months ended June 30, 2005 \$0 was paid, of which \$0 was interest.

During the six months ended June 30, 2006, \$17,952 was paid, of which \$5,605 was interest.

10. **OTHER BUSINESS**

On April 4, 2006, Tiomin signed a mandate letter with a syndicate of three financial institutions to arrange and underwrite a 8-year senior secured term loan of US\$120 million. The underwriting commitments provided are subject to finalization of due diligence and final internal approval of each of the underwriters.

On April 11, 2006, the Company entered into a memorandum of understanding (“MOU”) with Jinchuan, whereby, among other things, Jinchuan intends to provide Tiomin Kenya Limited with a US\$35 million subordinated debt facility. The debt will amortize over the life of the Kwale project. Jinchuan will have the ability to acquire up to US\$35 million of shares in Tiomin at all times during the life of the debt either by converting some or all of the then outstanding debt and/or paying cash. The price for such conversion or purchase will be \$0.65 per common share. The terms and conditions of this debt facility have been finalized on April 27, 2006 and were approved at the annual special meeting of shareholders held approval at the planned Annual Special Meeting to be held on June 14, 2006.

The finalization of due diligence and final approval of the underwriters, which is a release condition for the Jinchuan subordinated debt is expected to take place by no later than July 31, 2006.