



TIOMIN RESOURCES INC.

**CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Quarters Ended September 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 nine months ended September 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 Management's Discussion and Analysis ("MD&A")

This MD&A was completed on November 10, 2006.

Company Highlights

- Completed a private placement in April for proceeds of \$7.4 million
- Completed a prospectus offering for gross proceeds of \$60 million on July 31, 2006
- Structured a US\$155 million senior and subordinated debt facility for the Kwale project as well as a cost overrun facility of US\$25 million on July 31, 2006
- Commenced design and engineering work for the Kwale project in August 2006

Overview

This discussion and analysis of the consolidated operating and financial condition of Tiomin for the nine months ended September 30, 2006 and September 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.

During July 2006, the Company signed the Engineering Procurement and Construction Management (EPCM) contract with Ausenco. Detailed design and construction commenced in August 2006 and is anticipated to be completed within 22

months after which production will commence at an estimated initial annualized rate of 330,000 tonnes of ilmenite, 75,000 tonnes of rutile and 40,000 tonnes of zircon.

Revised capital costs, including contingencies, are expected to be approximately US\$178 million excluding interest and financing costs, which are expected to be an additional US\$23 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. During the quarter ended September 30, 2006, the Company entered into further sales contracts, which now account for near 100% of the planned output over life of mine. At current prices for these products, Kwale is expected to generate approximately US\$70 million in annual sales for the first five years of production. Global consumption of titanium and zircon is expected to continue growing at approximately 3% per year. Titanium is extracted from ilmenite and rutile and is mainly used in the pigment industry while zircon is primarily used in the ceramic industry.

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 million.

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 (“Tiomin Kenya”) 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.

On April 27, 2006, Jinchuan closed a private placement financing, which 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 held at the time of closing the transaction on April 27, 2006 approximately 9.9% of Tiomin’s outstanding common shares, excluding the exercise of warrants and bonus warrants. At the end of the third quarter ended September 30, 2006, Jinchuan’s interest has been diluted to 4.4% of Tiomin’s outstanding common shares and Jinchuan is entitled to the Bonus Warrant.

In April 2006, the Company entered into an agreement with Barrick Gold Corp. (“Barrick”) to buy back the 20% net profit interest royalty from Barrick’s subsidiary Pangea Goldfields Inc. Pursuant to the terms of the buy-back, on August 8, 2006, Tiomin paid Barrick US\$2.0 million and issued five million common shares of the Company at a deemed value of \$0.27 per common share being the closing price of the previous day.

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 mineral sands project in Kenya. The Offering was to 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, 2006, the Company announced the Closing of the Offering and the Agent exercised the option to increase the Offering by \$10 million to \$60 million. The Offering consisted of 200 million 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. (the "Agents") participated in the syndicate for the Offering. The total \$60 million of the Offering was deposited with Computershare Trust Company of Canada and 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. The Release Conditions were met to the satisfaction of the Agents on July 31, 2006 and the Subscription Receipts were exercised into common shares and Warrants and the escrowed funds were released to the Company.

A non-refundable amount of \$1.8 million was paid to the Agents on the Closing of the Offering on June 6, 2006 and the balance of \$1.8 million was paid on July 31, 2006. Share issue costs of \$4,108,958 were incurred to complete this transaction, which equates to approximately 7% of the Offering.

On July 31, 2006, the Company announced that it had structured a financing package totalling US\$201 million for the construction and development of the Kwale mineral sands project in Kenya. The Company had entered into definitive agreements with respect to the project's debt financing totalling US\$155 million. With the debt financing and cost overrun facility described below in place, the Company had satisfied the Release Conditions for the \$60 million equity financing mentioned above that was completed on June 6, 2006 and held in escrow. With half of the capital expenditures for the project re-validated during the extensive due diligence process, the total costs are now projected at approximately US\$178 million (including working capital and contingencies).

The debt financing is comprised of three separate debt facilities (collectively, the "Debt Facilities"): (1) a senior loan facility in the amount of US\$120 million (the "Senior Facility"), (2) a junior loan facility in the amount of US\$35 million (the "Junior Facility"), and (3) a cost overrun facility in the amount of US\$25 million (the "Overrun Facility"). Tiomin Kenya, wholly owned subsidiary of Tiomin and owner of the project will be the borrower of the Debt Facilities, with the Company acting as guarantor during the pre-completion period. The Debt Facilities are secured by a charge on substantially all of the assets associated with the project.

As a condition of obtaining the Debt Facilities, the Company agreed to advance US\$46 million to Tiomin Kenya as an equity contribution. This equity contribution will be funded from the proceeds of the Subscription Receipt financing described above. The Company's equity contribution will be used to fund the initial phase of construction. Following expenditure of the equity contribution, Tiomin Kenya will draw down pro rata on the Senior Facility and the Junior Facility to fund the balance of the project development costs. In accordance with the project construction schedule and budget, initial drawdown under the Senior Facility and the Junior Facility is not scheduled to occur until February 1, 2007.

As at September 30, 2006, the costs associated with the Debt Facilities totalled \$11,719,423. All costs, which include the finance costs and lender and advisor fees, are deferred.

Development Risks

Drawdown under the Debt Facilities, which is expected to take place in February 2007, is subject to Tiomin Kenya meeting a number of a number of development obligations precedent, including receipt of certain authorizations and confirmations from the Government of Kenya ("GoK"), confirmation from the lenders' technical adviser that the initial construction phase funded by the equity contribution has progressed in accordance with specified timing and budgetary milestones, and that no funding shortfall for the project exists, and the non-occurrence of actual or potential events of default under the financing documents.

The Company has informed the GoK of the conditions that have to be met for the drawdown under the debt facilities to occur on time and avoid a potential funding shortfall for the project and/or cancellation of the project. As announced on October 24, 2006, the Company had not been given full access to the project site by the Government of Kenya in order to start construction activities. On November 10, 2006, the GoK issued public notices in the Kenya Gazette stating its

intention to acquire the land of the seven farmers, controlling eight plots of land, that are preventing access to the project site. The Company understands that the GoK has the authority to give unrestricted access to the mining property before the compensation hearing date of December 21, 2006. Tiomin is encouraged by the GoK's decisive actions and continues to cooperate with the GoK to advance the project according to schedule.

Senior Facility

The Senior Facility is being provided as to a first tranche of US\$80 million by a syndicate comprised of Standard Chartered Bank, WestLB AG and Caterpillar Financial (Zurich), and as to a second tranche of US\$40 million by the African Development Bank. The two tranches of the Senior Facility are repayable in installments, with the first tranche repayable in full in eight years, and the second tranche repayable in nine years. Both tranches of the Senior Facility will bear interest at a rate equal to LIBOR plus 3%. In addition to upfront fees payable at the time of establishment of the Senior Facility, a commitment fee of 1% per annum is payable on the undrawn amount of the Senior Facility. The Senior lenders in the first tranche require political risk insurance and this policy has been provided by Export Finance and Insurance Corporation of Australia.

Junior Facility

The Junior Facility is being provided by Jinchuan Group Limited (“Jinchuan”), a major Chinese integrated non-ferrous metallurgical company engaged in mining, concentrating, smelting and chemical engineering. The Junior Facility is repayable in full in ten years. The Junior Facility will bear interest at a rate equal to LIBOR plus 4%.

In connection with the establishment of the Junior Facility, the Company has entered on July 31, 2006 into a warrant agreement with Jinchuan (the “Principal Warrant Agreement”), pursuant to which Jinchuan may purchase up to US\$35 million of common shares of the Company at an exercise price of \$0.65, which exercise price may be satisfied either in cash or by assignment of an equal amount of Tiomin Kenya’s principal indebtedness under the Junior Facility. The aggregate number of common shares of the Company issuable pursuant to the Principal Warrant Agreement will depend on the US\$ - Cdn\$ exchange rate at the time(s) of warrant exercise.

In addition, the Company has entered into a second warrant agreement with Jinchuan (the “Interest Warrant Agreement”), pursuant to which Jinchuan may convert any interest payable on the Junior Facility if not paid by Tiomin Kenya when due, at an exercise price equal to the weighted average trading price of the Company’s shares for the 20 trading day period immediately preceding the date of exercise. The aggregate number of common shares of the Company issuable pursuant to the Interest Warrant Agreement will depend on the amount, if any, of unpaid interest, and the market price of the Company’s shares at the time(s) of warrant exercise.

Overrun Facility

The Overrun Facility is being provided by Financierings – Maatschappij voor Ontwikkelings laden N.V. (“FMO”), a development financial institution based in the Netherlands. The Overrun Facility is to be drawn upon only in the event that the equity contribution and the Senior Facility and Junior Facility are insufficient to fund the project costs. The Overrun Facility will bear interest at a fixed annual rate of 13% prior to project Completion, and 12% thereafter. A commitment fee of 1% per annum is payable on the undrawn amount of the Overrun Facility. With the establishment of this cost overrun facility, Tiomin has issued at July 31, 2006 to FMO 37,500,000 common share warrants at an exercise price of \$0.36, expiring on the later of (i) four years after issuance, or (ii) 18 months after project completion, but in any event expiring no later than December 31, 2010.

The remaining proceeds from the \$60 million equity financing not already committed to the project, which is approximately \$8.4 million will be used for payment of Kenyan properties royalty interest, exploration work at its other mineral sands properties and at its advanced exploration stage Pukaqaqa copper-gold project in Peru, and general corporate purposes.

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 million, consisting of US\$1million 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\$1million 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 US\$200,000 to be applied towards either the balance of property payments to RTZ 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 (paid on September 27, 2006) and US\$1million on October 1, 2007. The total acquisition cost to Tiomin for its 49% interest in the Pukaqaqa deposit is US\$3.7 million, which includes US\$1million 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 nine months ended September 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 project located in Peru. During the nine months ended September 30, 2006, 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 third quarter ended September 30, 2006 was \$462,585 (\$0.00 per share) and \$620,491 (\$0.00 per share) for the same period in 2005. For the nine month period ended September 30, 2006 and 2005, the loss was \$2,174,600 (\$0.01 per share) and \$1,882,902 (\$0.01 per share), respectively. Operating expenses for the quarter ended September 30, 2006, excluding non-cash foreign exchange losses, were \$554,312 compared to \$629,836 in 2005 and \$2,249,181 (2005 - \$1,876,675) for the nine months ended September 30, 2006 and 2005, respectively.

For the nine months ended September 30, 2006, \$2,997,609 (2005 - \$3,068,574) was invested in deferred exploration in the Kwale project. During the quarter ended September 30, 2006, \$880,533 (2005 - \$894,694) and for the nine months ended September 30, 2006, \$425,040 (2005 - \$1,105,413) was invested in the Pukaqaqa project (capitalized asset) as work on the projects continues. During the nine months ended September 30, 2006, the Company acquired mineral properties totalling \$5,325,483 (capitalized asset). This was mainly attributable to the acquisition costs related to the Kwale project. The Company also spent \$319,525 on fixed assets, which was mainly attributable to computers and equipment purchases.

On August 1, 2006, the Company commenced detailed engineering work of its Kwale project in Kenya. Construction in Progress totaled \$4,099,743 at September 30, 2006.

Salaries and other compensation

Salaries and other compensation expenses for the three and nine months ended September 30, 2006 decreased to \$311,115 in the third quarter and increased for the nine months ended to \$1,303,996 compared to \$412,525 and \$1,193,147 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 nine months period ended September 30, 2006 is a non-cash amount of \$83,778 and \$753,814 compared to \$227,308 and \$720,975 for the same periods in 2005, which is as a result of stock options being expensed. Salaries are expected to increase for the remainder of 2006 as a number of new people will be hired in various positions at a Head Office level to add support to the Kwale project. The staff complement at Head Office should remain at this level in 2007.

Office costs

Office costs for the three and nine months ended September 30, 2006 were \$43,208 and \$129,648 compared to \$51,845 and \$127,916 during 2005. For the nine months this equates to approximately a 1.35% increase over 2005 and is a result of the increased activity within the organization.

Foreign exchange loss

Foreign exchange losses were \$553,549 and \$638,100 for the three and nine months ended September 30, 2006 compared to \$6,000 and \$41,677 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.

Amortization

During the quarters ended September 30, 2006 and 2005, amortization charges of \$14,262 and \$3,370 and \$28,646 and \$9,364 for nine month period ended September 30, 2006 and 2005. The increase is mainly due to a number of new vehicles that were acquired in the third and fourth quarter of 2005 and have been depreciated for the full nine months during 2006. During the nine months ended September 30, 2006, the Company has acquired additional fixed assets of \$319,525, which will result in additional amortization charges in the future. During the nine months ended September 30, 2006, \$16,585 was capitalized to deferred exploration and development.

Interest

Interest charges for the quarters ended September 30, 2006 and 2005 were \$2,287 and \$822 respectively and \$7,892 and \$822 for the nine month period ended September 30, 2006 and 2005. The amounts incurred during 2006 are for leased vehicles through the Company's wholly-owned subsidiary Tiomin Kenya, acquired in the last quarter of 2005.

Travel

Travel expenses have increased substantially over 2005 due to salaried personnel and consultants traveling to Kenya and Australia to progress the construction and development of the Kwale project. During the three and nine months ended September 30, 2006 and 2005, amounts totalling \$71,952 and \$247,543 and \$76,244 and \$103,574, respectively were expensed.

Stock exchange fees

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

Shareholders' information

For the quarters ended September 30, 2006 and 2005, amounts totalling \$19,764 and \$9,455 were expensed compared to \$112,867 and \$82,493 which were expensed for the nine month period ended September 30, 2006 and 2005, respectively.

Promotion

Promotion expenses for the three and nine months ended September 30, 2006 were \$44,558 and \$185,402 compared to \$34,681 and \$125,424 for the same periods in 2005. The Company is spending a significant amount of time and money promoting the various projects at a number of high profiled mining shows to keep investors and analysts aware of the Kwale and other projects held by the Company.

Professional fees

Professional fees for the quarters ended September 30, 2006 and 2005 were \$43,794 and \$40,894, respectively and \$209,349 and \$111,122, respectively for the nine month period ended September 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 September 30, 2006 and 2005 were \$3,372 and \$nil and \$9,267 and \$111,013 for both the nine months ended September 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 September 30, 2006 and 2005 were (\$645,276) and (\$15,345) and (\$712,681) and (\$35,450) for the nine months ended September 30, 2006 and 2005, respectively. The amounts received for both years were mainly from funds received from private placements, prospectus offerings and other equity issues invested in interest bearing instruments. During the nine months ended September 30, 2006, amounts totalling \$67,663,750 were received. This will vary from year to year.

Administrative expenses for the quarter and nine months ended September 30, 2006 have increased mainly due to foreign exchange losses which are \$553,549 (2005 - \$6,000) and \$638,100 (2005 - \$41,677) respectively. 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.

	3rd Quarter Sep. 30, 2006	2nd Quarter Jun. 30, 2006	1st Quarter Mar. 31, 2006	4th Quarter Dec. 31, 2005
	\$	\$	\$	\$
Total operating expenses	1,107,861	476,092	1,303,328	903,442
Net loss	462,585	430,779	1,281,236	893,859
Net loss per share	0.00	0.00	0.01	0.01

	3rd Quarter Sep. 30, 2005	2nd Quarter Jun. 30, 2005	1st Quarter Mar. 31, 2005	4th Quarter Dec. 31, 2004
	\$	\$	\$	\$
Total operating expenses	635,836	791,886	490,630	474,561
Net loss	<u>620,491</u>	<u>772,945</u>	<u>489,466</u>	<u>467,645</u>
Net loss per share	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>

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: September 30, 2006	Three months: June 30, 2006	Three months: March 31, 2006	Fiscal year: 2005
Cash and cash equivalents	45,333	5,742	3,541	5,705
Working capital	43,318	4,783	2,762	4,607
Cash used in operating activities	1,805	(191)	(951)	(467)
Cash used in investing activities	(9,617)	(1,667)	(1,204)	(6,654)
Cash provided by (used in) financing activities	47,405	4,060	(10)	11,775

For the quarter and nine months ended September 30, 2006, Tiomin earned/(used) \$40,704,953 and (\$1,536,172) and \$40,742,330 and \$1,275,378 of cash for the same period in 2005. During the quarter, the Company issued shares for gross proceeds of \$60,000,000 and \$67,663,750 for the nine months ended September 30, 2006. Cash increased during the quarter ended September 30, 2006 from operating activities (primarily from an increase in accounts payable of \$2,258,204). For the nine months ended September 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 and \$60,000,000 from a Prospectus Offering discussed earlier in the MD&A. This was offset by deferred financing charges of (\$11,660,425) and investing activities in mineral properties, deferred exploration expenditure and the acquisition of fixed assets. Tiomin had a working capital surplus of \$43,318,412 at September 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 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 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 September 30, 2006, an amount of \$78,783 (December 31, 2005 - \$112,174) is owed excluding interest of approximately \$9,191 (December 31, 2005 - \$17,921) on the capital lease obligation. The long-term debt of \$386,262 is comprised of a Canadian International Development Agency grant (as described in note 7 to the consolidated financial statements) that is not repayable until the Company earns in excess of \$5 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 \$43,442 or \$14 per square foot of the rentable area will be payable in equal monthly installments of \$3,620.17 payable in advance on the 1st 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.

As the Company progresses with the construction of the Kwale project, its wholly subsidiary Tiomin Kenya will be entering into a number of material contracts, which will carry significant cancellation costs or non-refundable deposits. At September 30, 2006 the Company has entered into a number of contracts, which do not have material cancellation costs.

At September 30, 2006, the Company had entered into a US\$22 million contract with Ausenco to manage the EPCM contract and a US\$14.6 million with Laigi Meghji Patel and Company to construct the Port facility at Mombasa.

Subsequent to the quarter ended September 30, 2006, Tiomin Kenya has issued a letter of intent to Alstom (SA) Pty Ltd of South Africa to commence the construction of the Power Station to be used at the Kwale project. The details of the

agreement are to be finalized over the next two months. Should Tiomin Kenya cancel the order, Tiomin has agreed to a termination fee of €769,515.

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 September 30, 2006, Tiomin had no capital commitments, other than amounts already accrued or reflected in accounts payable. The Company will however be making significant 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 September 30, 2006, there have been no transactions with related parties.

Project Update

Kwale

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

The Kwale project remains Tiomin's priority. The Engineering, Procurement and Construction Management contract (EPCM) bid for the construction of the Kwale project was finalized on July 31, 2006 and the design commenced during August 2006. Construction of the Kwale project is due to commence during the fourth quarter of 2006.

Tiomin reported on the development progress at the Kwale project on October 24, 2006. The access to the land where the plant facilities are to be constructed remains the biggest challenge at this early stage of the project. There are currently seven farmers who control eight plots that have not signed the generous Resettlement Action Plan whose compensation rates were negotiated by the GoK, the farmers and Tiomin and fully comply with World Bank guidelines and the Equator Principles.

The GoK is currently in discussions with these seven farmers and the Company hopes to have a positive outcome in the not to distant future. Two of the eight plots impact the initial construction plans. As a result of this process, earthworks that were initially scheduled to start in November 2006 will be postponed until December 2006. Tiomin still believes that it is currently on schedule but requires the GoK to give the Company unrestricted access to the entire site by early December to avoid costly delays that will certainly impact the viability of the project. In the event of significant delays or cost increases caused by the lack of access from the GoK, Tiomin will evaluate its options, which include delaying or terminating the project. Elsewhere, Tiomin is actively clearing plots that have been ratified by the Kenyan authorities in readiness for infrastructure and civil works.

On November 10, 2006, Tiomin reported that the GoK had issued public notices in the Kenya Gazette stating its intention to acquire the land of the seven farmers, controlling eight plots of land. The seven farmers are the only ones, out of a total of 378 farmers that are affected by the GoK land acquisition program, who are opposed to the compensation agreement.

In addition, under a separate notice, the Commissioner of Lands gave notice that a compensation hearing will be held on December 21, 2006. Tiomin has received a legal opinion stating that obtaining access to the land is not related to the compensation hearing. The Company understands that the GoK has the authority to give unrestricted access to the mining property before the hearing date.

Tiomin is encouraged by the GoK's decisive actions and continues to cooperate with the GoK to advance the project according to schedule.

Pukaqaka

The Company will continue to fund its 49% share of the Pukakuqa copper project in Peru. It has commenced a 14,000 meter drilling program, which is expected to be completed by year-end.

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.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide assurance that all relevant information is gathered and reported to the senior management, which includes the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As of December 31, 2005, the Company's certifying officers, being the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that, as of December 31, 2005, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and reports filed or submitted under Canadian securities laws were recorded, processed, summarized and reported within the time periods specified by those laws and that material information was accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Outstanding Share Data

As at September 30, 2006, the Company had issued and outstanding 372,694,536 common shares (December 2005 - 150,359,536) and 615,743,811 issued on a fully diluted basis (December 2005 - 189,750,203). Included in the fully diluted number are 233,034,275 warrants (December 2005 - 31,900,668), 8,965,000 stock options (December 2005 - 6,410,000) and 1,050,000 compensation units that are described in detail in note 8c 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 nine months ended September 30, 2006, 3,800,000, stock options were granted at market price on the dates of the grants at an average exercise price of \$0.36 and 430,000 options were cancelled or expired. During the nine months

ended September 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.

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.

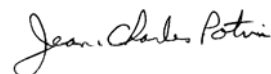
CONSOLIDATED BALANCE SHEETS

As at September 30 (Stated in Canadian dollars)

	September 2006 Unaudited	December 2005 Audited
ASSETS		
Current		
Cash and cash equivalents	45,332,771	5,704,641
Restricted cash	1,114,200	-
Receivables	161,505	60,097
Prepaid expenses	61,173	44,500
	46,669,649	5,809,238
Fixed assets, net of accumulated depreciation (note 3)	1,183,051	936,772
Construction in Progress (note 4)	4,099,743	-
Mineral properties (note 5)	7,723,065	2,397,582
Deferred exploration and development (note 5)	25,808,696	22,811,087
Deferred financing costs (6)	11,719,423	58,998
	50,533,978	26,204,439
	97,203,627	32,013,677
LIABILITIES		
Current		
Accounts payable and accrued liabilities	3,315,687	1,164,222
Current portion of capital lease obligations (note 11)	35,550	37,908
	3,351,237	1,202,130
Long-term		
Capital lease obligations (note 11)	43,233	74,266
Long-term liabilities (note 7)	386,262	386,262
	429,495	460,528
SHAREHOLDER' EQUITY		
Capital stock (note 8a)	174,103,466	104,994,856
Contributed surplus (note 8d)	2,603,275	1,944,321
Deficit	(83,283,846)	(76,588,158)
	93,422,895	30,351,019
	97,203,627	32,013,677

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 September 30 (Stated in Canadian dollars)

	<i>For the three months</i>		<i>For the nine months</i>	
	2006	2005	2006	2005
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
Salaries and other compensation (note 8c and 8d)	311,115	412,525	1,303,996	1,193,147
Office costs	43,208	51,845	129,648	127,916
Foreign exchange loss	553,549	6,000	638,100	41,677
Amortization	14,262	3,370	28,646	9,364
Interest	2,287	822	7,892	822
Travel	71,952	76,244	247,543	103,574
Stock exchange fees	-	-	14,571	11,800
Shareholders' information	19,764	9,455	112,867	82,493
Promotion	44,558	34,681	185,402	125,424
Professional fees	43,794	40,894	209,349	111,122
General exploration and write-off	3,372	-	9,267	111,013
Total expenses	1,107,861	635,836	2,887,281	1,918,352
Less: interest income and other income	(645,276)	(15,345)	(712,681)	(35,450)
Net loss for the period	462,585	620,491	2,174,600	1,882,902
Share issue costs	4,463,567	-	4,521,088	1,080,980
Deficit, beginning of period	78,357,694	74,824,779	76,588,158	72,481,388
Deficit, end of period	83,283,846	75,445,270	83,283,846	75,445,270
Basic and diluted loss per share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Basic and diluted weighted average shares outstanding	303,129,319	131,419,002	205,964,646	130,332,720

See accompanying notes

TIOMIN RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<i>For the three months</i>		<i>For the nine months</i>	
	2006	2005	2006	2005
	Unaudited	Unaudited	Unaudited	Unaudited
OPERATING ACTIVITIES				
Net loss for the period	(462,585)	(620,491)	(2,174,600)	(1,882,902)
<i>Add (deduct) non-cash items</i>				
Amortization	14,262	3,370	28,646	9,364
Compensation expense	83,778	227,308	753,814	720,975
Sublease expense	-	(7,998)	(2,666)	(23,994)
Fixed assets written-off	-	3,890	28,015	3,890
<i>Change in non-cash working capital</i>				
(Increase) decrease in receivables	(58,725)	(50,222)	(101,408)	(72,803)
Decrease (increase) in prepaid expenses	(30,115)	(13,952)	(16,673)	272,764
Increase (decrease) in accounts payables and accrued liabilities	2,258,204	116,810	2,147,850	(95,719)
	<u>1,804,819</u>	<u>(341,285)</u>	<u>662,978</u>	<u>(1,068,425)</u>
INVESTING ACTIVITIES				
Mineral properties acquired	(3,427,930)	(112,593)	(3,975,483)	(1,023,898)
Deferred exploration and development expenditures	(876,872)	(889,154)	(2,981,024)	(3,064,442)
Construction in Progress	(4,099,743)		(4,099,743)	-
Fixed assets acquisitions	(99,791)	(191,057)	(319,525)	(216,584)
Restricted cash	(1,114,200)	-	(1,114,200)	-
	<u>(9,618,536)</u>	<u>(1,192,804)</u>	<u>(12,489,975)</u>	<u>(4,304,924)</u>
FINANCING ACTIVITIES				
Cash received for common shares	60,000,000	-	67,663,750	7,182,223
Payment on capital lease obligations	(9,158)	(2,083)	(27,110)	(2,083)
Share issue costs	(4,463,567)	-	(4,521,088)	(531,413)
Deferred financing costs	(8,122,805)	-	(11,660,425)	-
	<u>47,404,470</u>	<u>(2,083)</u>	<u>51,455,127</u>	<u>6,648,727</u>
Net increase (decrease) in cash and cash equivalents	39,590,753	(1,536,172)	39,628,130	1,275,378
Cash and cash equivalents, beginning of the period	5,742,018	3,861,663	5,704,641	1,050,113
Cash and cash equivalents, end of period	45,332,771	2,325,491	45,332,771	2,325,491
<u>Supplementary cash flow information</u>				
Interest received	645,276	15,345	712,681	35,450

See accompanying notes

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 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 are 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, project development costs and exploration expenses relating to mineral properties with proven resource potential are deferred until the properties are brought into production, at which time exploration and development costs will be 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.

Construction in Progress:

Construction in Progress expenditures for the construction and commissioning of the Kwale minerals sands project in Kenya are capitalized until the mine is operational at which point the costs will be transferred to fixed assets and amortized at rates applicable to relevant asset categories.

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 amortization 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 with remaining maturity dates of 90 days.

Deferred Financing Costs:

The costs of obtaining bank and other debt financing are deferred and will be amortized on a straight-line basis over the term of the debt to which they relate.

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 8(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:

	September 30, 2006 Cost	September 30, 2006 Accumulated depreciation	Net book value	December 31, 2005 Cost	December 31, 2005 Accumulated depreciation	Net book value
Computers	149,687	95,192	54,495	120,447	82,727	37,720
Furniture and fixtures	97,285	41,443	55,842	97,285	30,650	66,635
Equipment	288,374	54,369	234,005	94,815	60,021	34,794
Vehicles	193,393	47,383	146,010	124,681	19,757	104,924
Land	692,699	-	692,699	692,699	-	692,699
Total	1,421,438	238,387	1,183,051	1,129,927	193,155	936,772

During the nine months ended September 30, 2006, \$16,585 (2005 – \$4,132) of depreciation was capitalized to deferred exploration and development. Assets with a cost of \$28,015 and \$nil book value were written-off.

4. **CONSTRUCTION IN PROGRESS**

	2006
Opening Balance	-
Additions	4,099,743
Closing Balance	\$4,099,743

Construction in Progress is represented by the expenditure under a construction contract, including a contract of US\$22 million entered into with Ausenco International Pty Ltd. based in Queensland, Australia (“Ausenco”) for the engineering, procurement, commissioning and construction management of the mining facilities at the Kwale project in Kenya. Ausenco will provide engineering, procurement and construction management, expertise in design, project management, construction, completion and commissioning of the processing plant and facilities.

Included in Construction in Progress is the Local infrastructure, including the Port facilities road access and other infrastructure, which will be managed by local Kenyan contractors.

Local contractors Laigi Meghji Patel and Company have been awarded the tender for the construction of the Port facilities, while a local project management consulting firm, Muambi Associates, has been retained as quantity surveyors. This facility is expected to cost approximately US\$14.6 million.

The recovery of Construction in Progress is dependent upon the successful development of the Kwale project, which in turn is dependent on the continued availability of adequate funding for the project.

5. **MINERAL PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT**

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

	MINERAL PROPERTIES		DEFERRED EXPLORATION AND DEVELOPMENT	
	September 30, 2006 (cost)	December 31, 2005 (cost)	September 30, 2006 (cost)	December 31, 2005 (cost)
Kenya	5,971,896	1,474,554	23,808,654	21,354,394
Peru	1,743,802	923,028	1,881,733	1,456,693
Tanzania	7,367	-	118,309	-
Total	\$7,723,065	\$2,397,582	\$25,808,696	\$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 Licenses 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 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% net profit interest royalty from Barrick's subsidiary Pangea Goldfields Inc.

On August 8, 2006, Tiomin paid Barrick US\$2.0 million and issued five million shares at a deemed value of \$0.27 per common share being the closing price of the previous day. Pursuant to the terms of the buy-back, Tiomin agreed to make a cash payment of US\$2.0 million and issue five million common shares of the Company to Pangea. 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 (paid) 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, 2006 (paid on September 27, 2006).
- 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.

6. DEFERRED FINANCING COSTS

	2006	2005
Financing commissions	7,297,700	-
Legal fees	3,239,508	58,998
Agents fees	498,612	-
Commitment fees	273,859	-
Other	409,744	-
Total	\$11,719,423	\$58,998

On July 31, 2006, the Company announced that it has structured a financing package totalling US\$201 million for the construction and development of the Kwale mineral sands project in Kenya. The Company has entered into definitive agreements with respect to the project's debt financing totalling US\$155 million.

The debt financing is comprised of three separate debt facilities (collectively, the "Debt Facilities"): (1) a senior loan facility in the amount of US\$120 million (the "Senior Facility"), (2) a junior loan facility in the

amount of US\$35 million (the “Junior Facility”), and (3) a cost overrun facility in the amount of US\$25 million (the “Overrun Facility”). Tiomin Kenya Limited (“Tiomin Kenya”), wholly owned subsidiary of Tiomin and owner of the project will be the borrower of the Debt Facilities, with the Company acting as guarantor during the pre-completion period. The Debt Facilities are secured by a charge on substantially all of the assets associated with the project.

As a condition of obtaining the Debt Facilities, the Company agreed to advance US\$46 million to Tiomin Kenya as an equity contribution. This equity contribution will be funded from the proceeds of the Subscription Receipt financing which closed on July 31, 2006. The Company’s equity contribution will be used to fund the initial phase of construction. Following expenditure of the equity contribution, Tiomin Kenya will draw down *pro rata* on the Senior Facility and the Junior Facility to fund the balance of the project development costs. In accordance with the project construction schedule and budget, initial drawdown under the Senior Facility and the Junior Facility is not scheduled to occur until February 1, 2007.

Commitment fees accrue at 1% per annum on the undrawn amount of the Senior Facility of US\$120 million and the Cost Overrun Facility of US\$25 million.

7. 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.

8. 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	116,467,525	92,154,473
Private placement	33,217,111	12,658,160
Issued upon exercise of warrants	674,900	182,223
Total common shares, December 31, 2005	150,359,536	104,994,856
Private placement	16,520,000	7,434,000
Prospectus offering	200,000,000	60,000,000
Pangea Royalty	5,000,000	1,350,000
Issued upon exercise of options	815,000	229,750
Black Scholes value of options exercised	-	94,860
Total common shares, September 30, 2006	372,694,536	174,103,466

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, these warrants expired on June 15, 2006).

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 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 announced that it had 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 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 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 was deposited with Computershare Trust Company of Canada in escrow

pending the satisfaction of certain release conditions (the “Release Conditions”), which included 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 6). The Release Conditions were met to the satisfaction of the Agents on July 31, 2006 and the Subscription Receipts were exercised into common shares and Warrants and the escrowed funds released to the Company.

A non-refundable amount of \$1.8 million was paid to the Agents on June 6, 2006 and the balance of \$1.8 million was paid on July 31, 2006. Share issue costs of \$4,108,958 were incurred to complete the transaction.

On August 8, 2006 the Company issued 5,000,000 common shares at a price of \$0.27 to Barrick in return for a 20% Net Profit Interest Royalty that Barrick held through its subsidiary Pangea.

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

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 September 30, 2006. All warrants are convertible into one common share of the Company.

Type	Total Outstanding	Exercise Price	Expiry Date
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
Series O	100,000,000	\$0.36	January 31, 2008
Jinchuan Warrants	60,937,692	\$0.65	July 31, 2016
FMO Warrants	37,500,000	\$0.36	December 31, 2010
Total	234,084,275	\$0.46	

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.

	September 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	3,800,000	0.36	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	<u>8,965,000</u>	<u>0.34</u>	<u>6,410,000</u>	<u>0.33</u>
Options exercisable at the end of period	<u>7,481,666</u>	<u>0.35</u>	<u>3,540,000</u>	<u>0.30</u>

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

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding As at September 30, 2006	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable As at September 30, 2006	Weighted Average Exercise Price \$
\$0.23 - 0.29	2,355,000	2.92	0.26	1,155,000	0.24
\$0.30 - 0.39	4,160,000	2.84	0.34	4,076,666	0.34
\$0.40 - 0.50	2,450,000	4.32	0.41	2,250,000	0.41
	<u>8,965,000</u>	<u>3.27</u>	<u>0.34</u>	<u>7,481,666</u>	<u>0.35</u>

During the nine months ended September 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 nine months ended September 30, 2006, 3,800,000 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 4.17%, expected dividend yield of nil, expected volatility between 34.132% and 87.015% and expected option life of between two and five years. Under this method of calculation, the fair value of the 3,800,000 stock options granted during the nine months ended September 30, 2006 is \$714,555.

d) **CONTRIBUTED SURPLUS**

	September 30, 2006	December 31, 2005
Balance, beginning of year	1,944,321	661,255
- Amortization of fair value of stock options	714,555	918,542
- Compensation shares vesting	39,259	29,740
- Stock options exercised	(94,860)	-
- Share purchase warrants issued	-	334,784
Balance, end of period	\$2,603,275	\$1,944,321

9. **INCOME TAXES**

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

	2005	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
Future tax assets	9,843,000	8,923,000
Valuation allowance	(9,843,000)	(8,923,000)
Net future tax assets	—	—

As at December 31, 2005, 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
	\$16,008,000

10. **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. 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. The lease is for two years and can be renegotiated.

11. **CAPITAL LEASE OBLIGATIONS**

Period ended September 30:		2006
2006		11,482
2007		44,829
2008		31,663
Total minimum lease payments	\$	87,974
Less amount representing interest at 11%		9,191
Present value of net minimum capital lease payments		78,783
Current portion of obligations under capital leases		35,550
	\$	43,233

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 nine months ended September 30, 2006 principal of \$27,110 (2005 - \$2,083) was paid and interest of \$7,892 (2005 - \$822) was paid.

12. **RESTRICTED CASH**

A condition of the debt financing (see note 6) was for Political Risk Insurance (“PRI”) to be provided for certain of the Senior Lenders. As a condition of the financing, Tiomin Kenya Ltd. (the borrower) deposited an amount of US\$1.0 million into a trust account equal to the maximum PRI Cancellation Fee that is or could be payable to the PRI Insurer if the policy is cancelled prior to drawdown or by no later than March 31, 2007 or by such later date as agreed by the insurer.

13. **SUBSEQUENT EVENTS**

Subsequent to the quarter ended September 30, 2006, Tiomin Kenya Ltd. has issued a letter of intent to Alstom (SA) Pty Ltd of South Africa to commence the construction of the Power Station to be used at the Kwale project. The details of the agreement are to be finalized over the next two months. Should Tiomin Kenya Ltd. cancel the order, Tiomin has agreed to a termination fee of €769,515.