



**TIOMIN RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

## TIOMIN RESOURCES INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

(All dollar amounts are expressed in thousands of Canadian dollars, except share and per share data)

#### Quarters Ended September 30, 2007 and 2006

This Management's Discussion and Analysis of Tiomin Resources Inc. ("Tiomin" or the Company) is dated November 1, 2007 and is intended to provide the reader with a review of the third quarter and nine months ended September 30, 2007 and should be read in conjunction with the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2006 prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

#### Selected Financial Information

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

	Period ended Sep.30, 2007	Period ended Sep.30, 2006
	\$	\$
<b>Loss before interest and amortization</b>	7,884	2,851
<b>Net loss</b>	7,246	2,175
<b>Net loss per share</b>	0.02	0.01
<b>Total assets</b>	69,721	97,203
<b>Long-term debt</b>	428	429

#### 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, objectives, 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 other factors which may affect this information, except as required by law.

#### Overview

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 mainly on the development of its Kwale titanium-bearing mineral sands project in Kenya. However, Tiomin is now actively seeking to expand its project portfolio to diversify its political and commodity risks. 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.

During the nine months ended September 30, 2007 the Company continues to explore various avenues in order to finance and develop the Kwale project. On April 2, 2007, the Company announced that it had entered into a Memorandum of Understanding with Jinchuan Group Limited. ("Jinchuan") of China to finance and expedite the development of the Kwale mineral sands project in Kenya ("Kwale" or the "Project").

At the Annual Special Meeting of shareholders held on June 11, 2007, the shareholders approved a private placement for Jinchuan to invest approximately \$10.9 million in Tiomin by purchasing 72,521,134 common shares of the Company at \$0.15 per share. The private placement closed on June 15, 2007 and Jinchuan currently holds 20% of the common shares outstanding. At the same meeting the shareholders also approved an 18-month option to Jinchuan, whereby Jinchuan can increase its interest in Tiomin to 30% by subscribing for

additional common shares at a price of \$0.35 per share, raising approximately an additional \$22.0 million in new cash resources if exercised.

During the year ended December 31, 2006 the Company completed a private placement with Jinchuan for \$7.4 million. The private placement consisted of 16,520,000 units priced at \$0.45 per unit and each unit entitles the holder 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 30, 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 (Expired July 30, 2007). As a result, Jinchuan held at December 31, 2006 and March 31, 2007, 4.4% of Tiomin's outstanding common shares.

## **Project Update**

### ***Kwale***

The Kwale mineral sands project is currently delayed and under *Force Majeure* because the Government of Kenya has not yet completed the bureaucratic steps required by international lenders to finance the project. Tiomin can offer no guidance about when the *Force Majeure* will end. The Kenyan bureaucracy is making some progress but the task remains incomplete and Tiomin can give no date for its completion. The Government of Kenya successfully resolved the legal issue of a very small minority of dissenting farmers blocking access to the area of the proposed mine. Unfortunately, the resulting delay affected the US\$155 million debt financing organized by Tiomin in 2006 and there is no guarantee that a similar debt package will still be available. Tiomin is reducing its expenditures in Kenya to a minimum until the Government of Kenya completes its work. Product prices and capital costs have both risen in since Tiomin arranged the prior debt package, requiring further analysis.

During April 2007, the Company announced that Jinchuan and the Company have entered into a Memorandum of Understanding to finance and expedite the development of the Kwale mineral sands project in Kenya and are equally united in their desire to jointly develop the project.

The financing by Jinchuan in the Company described above begins what we hope is an accelerated development program with potential cost savings by maximizing Chinese content. Jinchuan is a world-class mining company with extensive project development experience and it is an ideal partner for Tiomin and Kenya.

### ***Pukaqaqa Project***

The Company will continue to fund its 49% share of the Pukaqaqa copper project in Peru. Compania Minera Milpo S.A., a well established Peruvian mining company, the operator of the project, has completed the drilling program that started in August 2006. The company received complete assay results for the first 35 holes totalling 8,203 meters, which it published in a press release dated April 19, 2007 and assay results for the remaining 30 holes of the 16,218 meter drill program, which it published in a press release dated May 9, 2007. The drilling program was carried out systematically, starting from the north end of the Blanket Norte towards the Blanket Sur. The Company recently announced a significant increase in measured and indicated resources at Pukaqaqa, which was published on October 25, 2007. The Company is currently preparing an NI43-101 report on the resources at Pukaqaqa.

### ***Amazônia Mineração Ltda***

On July 3, 2007 the Company announced that it has entered into a mineral exploration and development agreement with Amazônia Mineração Ltda. ('AMZ'), a privately owned Brazilian company.

Under the terms of the agreement, Tiomin may earn a 50% vested interest in a mineral sands or base metal project procured by AMZ by spending US\$5 million on exploration and development within a four year period. In addition Tiomin can earn an additional 20% by completing a final feasibility study within a further three years. Upon completion of the final feasibility study, AMZ has the option to either fund its share of continuing expenses, sell its interest to Tiomin on pre-agreed terms or dilute down to a minimum 10% equity interest, which is convertible to a 2% Net Smelter Return.

AMZ is a respected and successful privately owned Brazilian mineral exploration and development company. It is owned and managed by well known Brazilian professionals, and includes internationally renowned Canadian experts as shareholders and directors. AMZ focuses on identifying and advancing high quality mineral projects, bringing in capable partners to jointly develop them to production. Main partnerships include Sertão Mineração, a JV company with Troy Resources of Australia, which acquired and developed the Sertão gold project, producing more than 240,000 ounces gold in the last 4 years. AMZ has strategic alliances with International Nickel Ventures of Canada, Mineração Marina of Brazil, and now Tiomin. Consequently, in the last 3 years, AMZ has become one of the most active exploration groups in Brazil and employs more than 20 geologists.

### Summary of Quarterly Results

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

	Sep-30 2007	Jun-30 2007	Mar-31 2007	Dec-31 2006	Sep-30 2006	Jun-30 2006	Mar-31 2006	Dec-31 2005
<b>Loss before interest and amortization</b>	1,354	452	6,078	31,084	1,091	463	1,297	896
<b>Net loss</b>	1,112	267	5,867	30,733	463	431	1,281	894
<b>Loss per share</b>	0.00	0.00	0.02	0.08	0.00	0.00	0.01	0.01

### 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 third quarter of 2007 the Company continued funding its 49% interest in the Pukaqaqa copper-gold deposit located in Peru.

Tiomin's loss from operations for the nine months ended September 30, 2007 was \$7,246 (\$0.02 per share) and \$2,175 (\$0.01 per share) for the same period in 2006. For the three months ended September 30, 2007 the loss from operations was \$1,112 (\$0.00 per share), (2006 - \$463) and (\$0.00 per share).

For the nine months ended September 30, 2007, \$162, (2006 - \$2,998) was invested in deferred exploration. During the quarter ended September 30, 2007, \$22, (2006 - \$881) and for the nine months ended September 30, 2007, \$118 (2006 - \$425) was invested in the Pukaqaqa project (capitalized asset) as work on the projects continues. During the nine months ended September 30, 2007, the Company acquired mineral properties totaling \$65 (2006 - \$5,325) (capitalized asset). This was mainly attributable to the acquisition costs related to the Pukaqaqa project in 2007 and the Kwale project in 2006. The Company also spent \$85 (2006 - \$320) on fixed assets, which was mainly attributable to new accounting software.

During the nine months ended September 30, 2007 construction expenses of \$4,504 relating to the Kwale project were expensed. These related to additional cancellation fees that accrued during the first quarter. During August 2006 the Company commenced construction of its Kwale project in Kenya. Construction in progress totaled \$11,909 at December 31, 2006 and this amount was written off after the decision was taken to cancel the debt facility.

### *Kwale Project write offs and write downs*

	September 30, 2007	September 30, 2006
Construction expenses	4,327	-
Financing expenses	177	-
	\$4,504	-

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

Salaries and other compensation expenses for the three and nine months ended September 30, 2007 increased to \$332 and \$2,423 compared to \$312 and \$1,304 for the same period in 2006. The increase is mainly attributable to additional staff being recruited during the third quarter of 2006, salary increases and bonuses paid in June 2007. Included in salaries and other compensation for the three and nine months period ended September 30, 2007 is a non-cash amount of \$Nil and \$1,060 compared to \$84 and \$754 for the same period in 2006, which is as a result of stock options being expensed. Consideration paid on the exercise of stock options and warrants is credited to share capital. The Company does not anticipate increasing the number of salaried staff during the remainder 2007.

### ***Office costs***

Office costs for the quarter ended September 30, 2007 were \$77 compared to \$43 during 2006 and for the nine months ended September 30, 2007, \$224 compared to \$130 during 2006. This increase over 2006 and is a result of the increased activity within the organization.

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

Foreign exchange losses for the three and nine months periods ended were (\$26) and \$555 and (\$26) and \$638 for the period ended September 30, 2007 and 2006 respectively. These losses/ (gains) 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 and nine months ended September 30, 2007 and 2006, amortization charges of \$58 and \$14 and \$175 and \$29 were expensed respectively. The increase is mainly due to a number of new vehicles that were acquired in the 2005 and new vehicles acquired in the fourth quarter of 2006. During the nine months ended September 30, 2007, the Company has acquired additional fixed assets of \$85. During the nine months ended September 30, 2007, \$Nil (2006 -\$17) was capitalized to deferred exploration and development. An amount of \$4,504 (2006 - \$Nil) was capitalized to capital work in progress, which was written-off.

### ***Interest***

Interest charges for the quarters and nine months ended September 30, 2007 and 2006 were \$4 and \$2 and \$12 and \$8 respectively. Most of the amounts incurred are for leased vehicles through the Company's wholly-owned subsidiary Tiomin Kenya Limited, acquired in the last quarter of 2005 and 2006 respectively. The Company does not expect to acquire any additional vehicles by way of capital lease during 2007.

### ***Travel***

Travel expenses have increased over 2006 due to salaried personnel and consultants traveling to Kenya and other overseas destinations to progress the construction and development of the Kwale project. During the three and nine months ended September 30, 2007 and 2006, amounts totaling \$82 and \$329 and \$72 and \$248 were expensed respectively. During 2007 travel will continue to be high as the Company continues to progress the Kwale project.

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

For the quarters ended September 30, 2007 and 2006, amounts totaling \$10 and \$20 were respectively expensed and for the nine months ended September 30, 2007, amounts totaling \$89 and \$128 were respectively expensed.

### ***Promotion***

Promotion expenses for the quarter ended September 30, 2007 were \$3 compared to \$44 for the same periods in 2006. For the nine months ended September 30, 2007 promotion expenses were \$44 (2006 - \$185). The Company normally spends a significant amount of time and money promoting the various projects at various international mining shows to keep investors and analysts aware of the Company's activities. During 2007 the Company cancelled a few shows after the suspension of the Kwale project.

### ***Professional fees***

Professional fees for the quarters ended September 30, 2007 and 2006 were \$39 and \$44 and \$239 and \$209 for the nine months ended September 30, 2007 respectively. The Company continues to use experts where required for legal, accounting and tax matters and will continue to do so during 2007.

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

General exploration and write-off expensed for the quarters ended September 30, 2007 and 2006 were \$11 and \$3 respectively. For the nine months ended September 30, 2007 and 2006 amounts of \$45 and \$9 were expensed. Management spends a great deal of time assessing various projects globally, 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. This amount is expected to increase during the balance of 2007 as the Company seeks other projects to add shareholder value.

### ***Leasehold Expense***

For the quarter and nine months ended September 30, 2007 and 2006 amounts totaling \$13 and \$nil and \$2 and \$Nil were respectively expensed on the Mombasa Mainland South Block facility.

### ***Interest income and other income***

Interest income and other income received for the quarters and nine months ended September 30, 2007 and 2006 were \$304 and \$646 and \$825 and \$713 respectively. The amounts received for both years were mainly derived from funds received from private placements, prospectus offerings and other equity issues invested in interest bearing instruments. This will vary from year to year.

### **Cash Flow and Liquidity**

The following table summarizes the Company's consolidated cash flows and cash on hand:  
(in thousands of Canadian dollars)

	<b>Three months: September 30, 2007</b>	<b>Three months: June 30, 2007</b>	<b>Three months: March 31, 2007</b>	<b>Fiscal Year 2006</b>
Cash and cash equivalents	<b>31,965</b>	<b>35,961</b>	<b>28,333</b>	34,566
Working capital	<b>30,803</b>	<b>32,400</b>	<b>21,901</b>	27,162
Cash used in operating activities	<b>(3,446)</b>	<b>(3,953)</b>	<b>(6,014)</b>	(45)
Cash used in investing activities	<b>(523)</b>	<b>1,077</b>	<b>(200)</b>	(21,703)
Cash provided by (used in) financing activities	<b>(27)</b>	<b>10,504</b>	<b>(19)</b>	50,609

For the quarters ended September 30, 2007, Tiomin used cash of (\$3,996) and \$39,591 for the same period in 2006. For the nine month period ended September 30, 2007, Tiomin used cash of \$2,601 and \$39,628 for the same period in 2006. During the nine month period ended September 30, 2007, 72,671 common shares were issued for proceeds of \$10,887 resulting in a net increase in cash, which was decreased during the quarter ended September 30, 2007 from operating activities (primarily from a decrease in accounts payable of \$2,192 and an increase in (2006 - \$2,257) and for the nine months ended September 30, 2007 decreased by \$8,168 and increased (2006 - \$2,148). Tiomin had a working capital surplus of \$30,803 at September 30, 2007 compared to \$27,162 at December 31, 2006.

## **Commitments and Contractual Obligations**

The Company, through its subsidiary Tiomin Kenya Limited has entered into capital lease agreements for various vehicles and equipment. An amount of approximately \$160, which includes interest, is payable until December 2009. In addition, Tiomin Kenya Limited has leased office premises for five years for approximately 90,000 Kenyan Shillings, and a house for two years for approximately 120,000 Kenyan Shillings.

At September 30, 2007, an amount of \$126 (December 31, 2006 - \$187) is owed excluding interest of approximately \$13 (December 31, 2006 - \$29) on the capital lease obligation. The long-term debt of \$386 is comprised of a Canadian International Development Agency grant (as described in note 7a 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-2009.

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 from July 1, 2006 through August 31, 2011, a fixed minimum annual rent of \$43 or \$0.014 per square foot of the rentable area will be payable in equal monthly installments of \$4 payable in advance on the first 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 September 30, 2007, Tiomin had no capital commitments, other than amounts already accrued or reflected in accounts payable.

## **Off-Balance Sheet Arrangements**

Tiomin has no off-balance sheet arrangements.

## **Transactions with Related Parties**

For the quarter and nine months ended September 30, 2007, there have been no transactions with related parties.

## **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 options pricing 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 Procedure**

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 at September 30, 2007, 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 at September 30, 2007 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, 2007, the Company had issued and outstanding 445,365,168 common shares (December 31, 2006 – 372,694,536) and 669,827,860 issued on a fully diluted basis (December 31, 2006 – 615,893,811). Included in the fully diluted number are 198,437,692 warrants (December 31, 2006 – 234,084,275), 26,025,000 stock options (December 31, 2006 – 9,115,000) and which, if exercised in their entirety, would contribute a further \$93.6 million to the Company in the future. In March 2007, 1,050,000 compensation warrants at \$0.40 were cancelled and 9,275,000 warrants at \$0.50 were cancelled and during the quarter ended June 30, 2007 an additional 7,858,556 warrants at \$0.50 and 943,027 warrants at \$0.36 were cancelled. On July 27, 2007 an additional 16,520,000 warrants at \$0.55 were cancelled.

For the nine months ended September 30, 2007, 18,300,000, stock options were granted at market price. During the quarter ended September 30, 2007 no stock options were granted, whilst during the quarter ended June 30, 2007, 3800,000 stock options were granted at \$0.125 and for the quarter ended March 31, 2007, 14,500,000 stock options were granted at an exercise price of \$0.09. For the nine months ended September 30, 2007 1,240,502 options were cancelled or expired and for the nine months ended September 30, 2007, 149,498 stock options at \$0.09 were exercised.

### **Subsequent Event**

There have been no subsequent events.

### **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 by 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 some of 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 on all of 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, no source of operating cash flow and 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 the 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.

### *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 also 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

(Expressed in thousands of Canadian dollars)

As at September 30

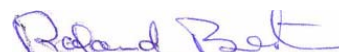
	<b>September 30 2007 Unaudited</b>	December 31 2006 Audited
<b>ASSETS</b>		
Current		
Cash and cash equivalents	31,965	34,566
Restricted cash (note 12)	-	1,166
Receivables	1,036	1,749
Prepaid expenses	47	89
	<u>33,048</u>	<u>37,570</u>
Fixed assets, net of accumulated amortization (note 3)	633	1,400
Long-term lease prepayment (note 4)	664	-
Mineral properties (note 5)	7,780	7,715
Deferred exploration and development (note 5)	27,096	26,934
Investment (note 6)	500	-
	<u>36,673</u>	<u>36,049</u>
	<u>69,721</u>	<u>73,619</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	2,174	10,331
Current portion of capital lease obligations (note 11)	71	77
	<u>2,245</u>	<u>10,408</u>
Long-term		
Capital lease obligations (note 11)	42	110
Long-term liabilities (note 7)	386	386
	<u>428</u>	<u>496</u>
<b>SHAREHOLDER' EQUITY</b>		
Capital stock (note 8a)	185,005	174,103
Contributed surplus (note 8d)	3,702	2,657
Deficit	(121,659)	(114,045)
Accumulated other comprehensive income	0	0
	<u>67,048</u>	<u>62,715</u>
	<u>69,721</u>	<u>73,619</u>

See accompanying notes

Approved on behalf of the Board:



Jean-Charles Potvin  
Chairman



Roland Bertin  
Director

## TIOMIN RESOURCES INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in thousands of Canadian dollars except share and per share data)

For the quarters ended September 30

	<i>For the three months</i>		<i>For the nine months</i>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>Unaudited</b>	Unaudited	<b>Unaudited</b>	Unaudited
<b>EXPENSES</b>				
Kwale project (note 13)	<b>824</b>	-	<b>4,504</b>	-
Salaries and other compensation	<b>332</b>	312	<b>2,423</b>	1,304
Office costs	<b>77</b>	43	<b>224</b>	130
Foreign exchange (gain)/ loss	<b>(26)</b>	555	<b>(26)</b>	638
Travel	<b>82</b>	72	<b>329</b>	248
Shareholders' information	<b>10</b>	20	<b>89</b>	128
Promotion	<b>3</b>	44	<b>44</b>	185
Professional fees	<b>39</b>	44	<b>239</b>	209
General exploration and write-off	<b>11</b>	3	<b>45</b>	9
Leasehold Expenses (note 4)	<b>2</b>	-	<b>13</b>	-
<b>Loss before interest and amortization</b>	<b>1,354</b>	1,093	<b>7,884</b>	2,851
Interest income	<b>(304)</b>	(646)	<b>(825)</b>	(713)
Interest expense	<b>4</b>	2	<b>12</b>	8
Amortization	<b>58</b>	14	<b>175</b>	29
<b>Net loss for the period</b>	<b>1,112</b>	463	<b>7,246</b>	2,175
Share issue costs	-	4,463	<b>368</b>	4,521
Deficit, beginning of year	<b>120,547</b>	78,358	<b>114,045</b>	76,588
<b>Deficit, end of period</b>	<b>121,659</b>	83,284	<b>121,659</b>	83,284
Basic and diluted loss per share	<b>\$ 0.00</b>	\$0.00	<b>\$ 0.02</b>	\$0.01
Basic and diluted weighted average shares outstanding	<b>445,355,405</b>	303,129,319	<b>401,192,831</b>	205,964,646

See accompanying notes

## TIOMIN RESOURCES INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

For the quarters ended September 30

	<i>For the three months</i>		<i>For the nine months</i>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>Unaudited</b>	Unaudited	<b>Unaudited</b>	Unaudited
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	<b>(1,112)</b>	(463)	<b>(7,246)</b>	(2,175)
<i>Add (deduct) non-cash items</i>				
Amortization charges	<b>58</b>	14	<b>175</b>	29
Compensation expense	-	84	<b>1,060</b>	754
Sublease expense	-	-	-	(3)
Leasehold expense	<b>2</b>	-	<b>13</b>	-
Fixed assets written-off	-	-	-	28
<i>Change in non-cash working capital</i>				
(Increase) decrease in receivables	<b>(172)</b>	(58)	<b>713</b>	(101)
Decrease (increase) in prepaid expenses	<b>(30)</b>	(30)	<b>42</b>	(17)
Increase (decrease) in accounts payable and accrued liabilities	<b>(2,192)</b>	2,257	<b>(8,168)</b>	2,148
	<b>(3,446)</b>	1,804	<b>(13,411)</b>	663
<b>INVESTING ACTIVITIES</b>				
Mineral properties acquired	-	(3,428)	<b>(65)</b>	(3,975)
Deferred exploration and development expenditures	<b>(22)</b>	(877)	<b>(162)</b>	(2,981)
Net fixed asset acquisitions	<b>(1)</b>	(99)	<b>(85)</b>	(320)
Construction in Progress	-	(4,100)	-	(4,100)
Investment in Alliance Pacific (note 6)	<b>(500)</b>		<b>(500)</b>	
Restricted cash (note 12)	-	(1,114)	<b>1,166</b>	(1,114)
	<b>(523)</b>	(9,618)	<b>354</b>	(12,490)
<b>FINANCING ACTIVITIES</b>				
Cash received for common shares	-	60,000	<b>10,887</b>	67,664
Payment on capital lease obligations	<b>(27)</b>	(9)	<b>(63)</b>	(27)
Share issue costs	-	(4,463)	<b>(368)</b>	(4,521)
Deferred financing costs	-	(8,123)	-	(11,661)
	<b>(27)</b>	47,405	<b>10,456</b>	51,455
Net increase in cash and cash equivalents	<b>(3,996)</b>	39,591	<b>(2,601)</b>	39,628
Cash and cash equivalents, beginning of year	<b>35,961</b>	5,742	<b>34,566</b>	5,705
<b>Cash and cash equivalents, end of period</b>	<b>31,965</b>	45,333	<b>31,965</b>	45,333
<b><u>Supplementary cash flow information</u></b>				
Interest received	<b>304</b>	646	<b>825</b>	713
Interest paid	<b>4</b>	2	<b>12</b>	8

See accompanying notes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of Canadian dollars except share and per share data)

**Unaudited**

**September 30, 2007**

### 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 consolidated financial statements for the period ended September 30, 2007 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 consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Revenue Recognition:**

The Company currently has no source of income and no immediate cash flow from its operations.

#### **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 general exploration expenses are expensed in the period that they occur. The Company does not accrue the future cost of maintaining the properties in good standing.

#### **Fixed Assets and Amortization:**

Fixed assets are stated at acquisition cost. Amortization 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
Software	3 years

**Investments:**

The Company holds an investment as described in note 6. The investment is in a private company and is currently not a quoted common share on any recognised exchange. The investment is measured at fair value with revaluation gains and losses included in other comprehensive income until the investment is disposed or impaired.

**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 the transaction. 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 or less at the time of acquisition.

**Income Taxes:**

Current income taxes are recognized for the estimated income and mining taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities 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). The Company accounts for all stock-based awards to employees and non-employees using the fair-value method

Effective June 11, 2007, the Company amended its stock option plan whereby the value of the options at the time of exercise is settled by the surrendering of the options for substituted rights and the immediate conversion of these rights into common shares ("cashless settlement"). The number of substituted rights is determined based on the exercise price and the market price of the Company's common shares at the date of exercise.

For options granted prior to June 11, 2007, compensation expense was first 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. If, prior to the exercise of the options, the quoted market price of the common shares exceeds the total of the fair value of the options as determined at the grant date plus the exercise price, additional compensation expense will be recorded equal to the excess with on-going re-measurement of the outstanding contributed surplus. At the time of exercise, share capital is credited with the amount, if any, of the outstanding contributed surplus plus the amount in contributed surplus.

For options granted after June 11, 2007, compensation expense is calculated as the amount by which the quoted market price exceeds the exercise price with on-going re-measurement of the outstanding contributed surplus. At the time of exercise, share capital is credited with the amount, if any, of the outstanding contributed surplus.

### Changes in Accounting Policies:

In 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued various new Handbook sections. These standards have been created to harmonize Canadian GAAP with US GAAP. The new standards must be adopted by the Company commencing January 1, 2007.

- (i) CICA Handbook Section 1530, titled Comprehensive Income establishes standards for the reporting and presentation of comprehensive income and defines other comprehensive income to include revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income.
- (ii) CICA Handbook Section 3855, titled Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.
- (iii) CICA Handbook Section 3865, titled Hedges establishes standards for when and how hedge accounting may be applied.

The Company has evaluated the impact of these new standards on its financial position and results of operations and has determined that these new standards have no impact on the company’s financial statements.

### 3. FIXED ASSETS

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

	September 30			December 31		
	2007 Cost	2007 Accumulated amortization	2007 Net book value	2006 Cost	2006 Accumulated amortization	2006 Net book value
Computers	168	124	44	168	106	62
Furniture and fixtures	122	61	61	122	47	75
Software	160	34	126	90	-	90
Mining equipment	364	130	234	350	79	271
Vehicles	350	198	152	350	141	209
Land	16	-	16	693	-	693
<b>Total</b>	<b>1,180</b>	<b>547</b>	<b>633</b>	<b>1,773</b>	<b>373</b>	<b>1,400</b>

During the period ended September 30, 2007, \$nil (2006 - \$17) of amortization was capitalized to deferred exploration and development.

### 4. LONG-TERM LEASE PREPAYMENT

Cost as at December 31, 2006	677
Amortization for the nine months ended September 30, 2007	13
<b>Net Book Value as at September 30, 2007</b>	<b>664</b>

This relates to leasehold property, Mombasa/Mainland South/Block 1/1980, which the company has prepaid for in full. The land was leased for the construction of the Likoni Port Facility in Mombasa. The remaining term of the lease is 87 years.

## 5. 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>September 30, 2007</b>	December 31, 2006
	(cost)	(cost)
Kenya	<b>\$5,972</b>	\$5,964
Peru	<b>1,801</b>	1,744
Tanzania	<b>7</b>	7
<b>Total</b>	<b>\$7,780</b>	<b>\$7,715</b>

<b>DEFERRED EXPLORATION AND DEVELOPMENT</b>		
	<b>September 30, 2007</b>	December 31, 2006
	(cost)	(cost)
Kenya	<b>\$24,001</b>	\$23,986
Peru	<b>2,903</b>	2,786
Tanzania	<b>192</b>	162
<b>Total</b>	<b>\$27,096</b>	<b>\$26,934</b>

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\$0.2 million 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 with 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 Special Licences were renewed in April 2004 and have been renewed in 2006.

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

On August 8, 2006, Tiomin paid Barrick US\$2.0 million and issued five million common 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 Mambrui), 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 \$2.0 million (paid) 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\$2.0 million, consisting of:

- US\$1.0 million in exploration expenditures of which US\$0.3 million is to be contributed before October 2005 (paid), and an additional US\$0.735 million before October 1, 2006 (paid on September 27, 2006).
- US\$1.0 million in cash payments consisting of US\$0.1 million in January 2005 (paid) and US\$0.4 million in July 2005 (paid), as per the agreement between Milpo and RTZ, and US\$0.3 million towards the purchase of the Jupiter claim on behalf of the joint venture. The remaining US\$0.2 million will be applied towards either the balance of property payments to RTZ or on further exploration work at the Company's discretion.

The Company will continue to fund its 49% share of the Pukaqaqa copper-gold project in Peru. It has completed a 14,000 meter drilling program and the final resource estimate should be made public during November 2007 and be NI43-101 compliant.

On May 2, 2006, the Company announced that it had acquired a new reconnaissance exploration licence for mineral sands along the coastline of Tanzania. The licence was acquired under an option agreement with Karoo Exploration Services Company Limited of Dar es Salaam ("Karoo"). Tiomin has agreed to pay Karoo US\$1,000 upon completion of filing and issuance of the reconnaissance exploration licence and make annual payments of US\$2,000 until the mineral interest expires or is surrendered. Tiomin can acquire a 100% interest in this exploration licence upon the payment of US\$20,000 at any time. The Company will continue to explore in Tanzania during 2007.

On July 3, 2007 the Company announced that it has entered into a mineral exploration and development agreement with Amazônia Mineração Ltda. ('AMZ'), a privately owned Brazilian company.

Under the terms of the agreement, Tiomin may earn a 50% vested interest in a mineral sands or base metal project procured by AMZ by spending US\$5 million on exploration and development within a four year period. In addition Tiomin can earn an additional 20% by completing a final feasibility study within a further three years. Upon completion of the final feasibility study, AMZ has the option to either fund its share of continuing expenses, sell its interest to Tiomin on pre-agreed terms or dilute down to a minimum 10% equity interest, which is convertible to a 2% Net Smelter Return.

## **6. INVESTMENT**

On July 31, 2007, the Company acquired for investment purposes by way of a private placement 1,250,000 common shares at \$0.40 per common share in Alliance Pacific Resources Inc. ("Alliance"), a private Corporation incorporated in Ontario. At September 30, 2007 Alliance has 19,524,127 common shares outstanding.

Alliance has joint venture agreements on four base metal properties in the Urumqi, Xingiang Uygur Autonomous Region in China.

## **7. LONG-TERM LIABILITIES**

### **a) Development Loan**

On April 22, 1999, the Canadian International Development Agency and the Company entered into a loan agreement under the Industrial Overseas Development Program. 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 \$5.0 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.

**b) Operating Lease**

On July 2, 2002, the Company agreed to sublease its current office space to a third party at a lower price than the original lease agreement. The totality of the space has been subleased to the third party since September 1, 2003. This resulted in the aggregate rent differential of \$77,325 being recognized as a charge to earnings in 2003. As at December 31, 2003, long-term liabilities included \$34,656 which represented net rent payments which were made in 2005 and 2006. During the quarter ended March 31, 2006, this amount was settled.

**8. CAPITAL STOCK**

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

	<b>Shares #</b>	<b>Amount</b>
Total common shares, December 31, 2006	<u>372,694,536</u>	<u>\$174,103</u>
Private placement	72,521,134	10,878
Issued upon exercise of options	100,000	9
Issued upon cashless exercise of options	49,498	2
Black Scholes value of options exercised	-	13
Total common shares, September 30, 2007	<u>445,365,168</u>	<u>\$185,005</u>

At the Annual Special Meeting of shareholders held on June 11, 2007 the shareholders approved the private placement whereby Jinchuan subscribed for 72,521,134 common shares of the Company at \$0.15 per common share for proceeds of approximately \$10.9 million. Share issue costs of \$368,378 were paid on the transaction.

This investment increases Jinchuan's equity ownership of Tiomin to approximately 20%. At the same special meeting the shareholders approved the granting to Jinchuan an 18-month option to increase its interest in Tiomin to 30% by subscribing for additional common shares at a price of \$0.35 per share, raising an additional \$22 million in new cash resources if exercised. On June 15, 2007 the Company closed the private placement.

On April 18, 2007, 100,000 stock options were exercised at \$0.09 per share for proceeds of \$9,000.

On June 25, 2007, 23,530 stock options were exercised using the cashless settlement alternative, approved at the Annual Special Meeting held on June 11, 2007. Under the cashless settlement option, the company has the option to issue to the option holder substituted rights which are immediately converted into an equal number of common shares. The number of substituted rights issued is determined based on the exercise price and the market price of the Company's shares at the date of exercise. Any shares issued under this are recorded as an increase to share capital and a charge to expense equal to the exercise price of the option. The deemed proceeds credited to common shares was \$1,492.

On July 24, 2007, 50,000 stock options at \$0.09 were exercised using the cashless settlement alternative as described above. The closing market price on the day of the exercise of the options was \$0.155, which resulted in 20,968 common shares being issued using the cashless settlement alternative as described above. The deemed proceeds credited to common shares was \$742.

On September 18, 2007, 50,000 stock options at \$0.09 were exercised using the cashless settlement alternative as described above. The closing market price on the day of the exercise of the options was \$0.10, which resulted in 5,000 common shares being issued using the cashless settlement alternative as described above. The deemed proceeds credited to common shares was \$Nil.

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. Shareholders were not asked to re-approve the Rights Plan at the Annual Special Meeting held on June 11, 2007.

**b) WARRANTS**

The following is a list of the warrants outstanding as at September 30, 2007. 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 O	100,000,000	\$0.36	December 7, 2007
Jinchuan Warrants	60,937,692	\$0.65	July 31, 2016
FMO Warrants	37,500,000	\$0.36	December 31, 2010
<b>Total</b>	<b>198,437,692</b>	<b>\$0.46</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 option pricing model. In March 2007, 1,050,000 compensation warrants at \$0.40 were cancelled and 9,275,000 warrants at \$0.50 were cancelled. During June 7,858,556 warrants at \$0.50 were cancelled and 943,027 broker warrants at \$0.36 were cancelled. During July 16,520,000 warrants at \$0.55 were cancelled.

**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, 2006 and 2007, 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 issuance and replacing it with a "rolling" number, which would result in 10% of the number of issued and outstanding common shares of the Company 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 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 Share Bonus Plan and a Share Purchase Plan for the benefit of directors, officers, employees and consultants of the Company. 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 Company would match each participant's contribution and the aggregate funds would be used to purchase common shares of the Company.

At the Annual Special Meeting held on June 11, 2007, the shareholders approved the 'cashless' settlement alternative in connection with the exercise of options under the Stock Option Plan and the addition of a provision whereby, if the expiry date of an option granted under the Stock Option Plan would otherwise occur during or within ten days following a Black-Out Period, the expiry date of such option shall be extended to the first business day which is at least ten days after the end of the Black-Out Period. Under the

cashless settlement option as described above, the company has the option to issue to the option holder substituted rights which are immediately converted into an equal number of common shares.

A summary of the outstanding stock options is presented below.

	September 30, 2007		December 31, 2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of year	9,115,000	\$0.34	6,410,000	\$0.33
Granted	18,300,000	0.10	3,950,000	0.36
Exercised	(100,000)	0.09	(815,000)	0.28
Exercised cashless method	(49,498)	0.09	-	-
Cancelled / expired	(1,240,502)	0.29	(430,000)	0.42
Outstanding, end of the period	26,025,000	0.17	9,115,000	0.34
Options exercisable at the end of period	<b>25,275,000</b>	<b>\$0.17</b>	<b>7,481,666</b>	<b>\$0.35</b>

The following table summarizes information about the stock options outstanding as at September 30, 2007.

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding As at September 30, 2007	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable As at September 30, 2007	Weighted Average Exercise Price \$
	\$ 0.09	14,250,000	4.40	\$0.09	14,250,000
\$0.125	3,800,000	4.65	\$0.125	3,800,000	\$0.125
\$0.20 - 0.29	1,920,000	2.85	0.26	1,170,000	0.27
\$0.30 - 0.39	3,905,000	1.96	0.34	3,905,000	0.34
\$0.40 - 0.50	2,150,000	3.48	0.41	2,150,000	0.41
	<b>26,025,000</b>	<b>3.88</b>	<b>\$0.17</b>	<b>25,275,000</b>	<b>\$0.17</b>

During the quarter ended March 31, 2006, 2,350,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.86%, 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 2,350,000 stock options granted during the quarter ended March 31, 2006 was \$609,744.

For the nine months ended September 30, 2007, 18,300,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of between 3.97% and 4.13%, expected dividend yield of nil, expected volatility of between 59.15% and 61.81%, and expected option life of five years. Under this method of calculation, the fair value of the 14,500,000 stock options granted during the quarter ended March 31, 2007 is \$721,177 and the fair value of the 3,800,000 stock options granted during the quarter ended June 30, 2007 is \$258,005.

d) **CONTRIBUTED SURPLUS**

	September 30, 2007	December 31, 2006
Balance, beginning of year	<u>\$2,657</u>	\$1,944
Amortization of fair value of stock options	980	769
Compensation shares vesting	78	39
Stock options exercised	<u>(13)</u>	<u>(95)</u>
Balance, end of period	<u>\$3,702</u>	<u>\$2,657</u>

9. **INCOME TAXES**

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

	2006	2005
Non-capital losses carried forward	\$ 4,430	\$ 5,462
Resource-related deductions	3,304	3,620
Share issue costs	1,422	479
Fixed assets	261	282
<b>Future tax assets</b>	9,417	9,843
Valuation allowance	(9,417)	(9,843)
<b>Net future tax assets</b>	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 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:

2007	\$ 1,897
2008	1,771
2009	1,214
2010	1,176
2014	2,970
2015	2,021
<u>2026</u>	<u>3,175</u>
	<b>\$14,224</b>

10. **LEASE COMMITMENTS**

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 from 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 instalments of \$3,620 payable in advance on the first 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

The Company, through its subsidiary Tiomin Kenya Limited, entered into a lease for its premises in Ukundu, Kenya for five years, which commenced 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 Tiomin Kenya Limited 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:		2007
2007		21
2008		69
2009		36
Total minimum lease payments	\$	126
Less amount representing interest at 11%		13
Present value of net minimum capital lease payments		113
Current portion of obligations under capital leases		71
	\$	42

During the quarter ended September 30, 2007, the Company through its subsidiary Tiomin Kenya Limited paid \$63 (2006 - \$27) relating to the capital lease obligations, of which \$11 (2006 - \$8) was interest.

**12. RESTRICTED CASH**

As a condition of the proposed debt financing in 2006 (which was subsequently cancelled in February 2007) Political Risk Insurance (“PRI”) was to be provided for certain of the senior lenders. As a consequence, Tiomin Kenya Limited (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. Because of the cancellation of the debt financing the Company will be required to pay the cancellation fee. During the quarter ended June 30, 2007 the PRI Insurer cancelled the policy and has been paid the US\$1.0 million or \$1.166 million on the balance sheet at December 31, 2006.

**13. KWALE PROJECT**

As a result of the suspension of the Kwale project the following has been charged to operations.

	September 30, 2007
Cancellation fees	\$ -
Construction expenses	4,327
Deferred financing costs	177
	<b>\$ 4,504</b>

**14. CURRENCY RISK**

Certain of the Company's activities, and certain of the expenses incurred in connection with the Kwale Project, are transacted in U.S. dollars. Other expenses incurred in connection with the Kwale Project are transacted in Kenyan shillings, Australian dollars and South African rand. Fluctuations in relative currency values among the Canadian dollar, the U.S. dollar, the Kenyan shilling, the Australian dollar and the South African rand may adversely affect the Company's financial position and results. The Company does not currently have in place a policy for managing or controlling foreign currency risks since, to date, its primary activities have not resulted in material exposure to foreign currency risk.

**15. RECLASSIFICATION**

Certain comparative figures have been reclassified to conform to the current period presentation.