



**CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

# TIOMIN RESOURCES INC.

## CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of Canadian dollars)  
As at June 30 and December 31

	<b>June 30, 2009 Unaudited \$</b>	December 31, 2008 Audited \$ (Restated – Note 6(a))
<b>ASSETS</b>		
Current		
Cash and cash equivalents (note 15)	13,834	19,300
Receivables (note 22)	477	431
Short-term loan net of allowance for loan impairment (note 16)	2,071	2,483
Prepaid expenses	292	362
	<b>16,674</b>	<b>22,576</b>
Fixed assets, net of accumulated amortization (note 3)	185	314
Long-term lease prepayment (note 4)	783	792
Mineral properties (note 5)	9,680	9,680
Deferred exploration and development (note 5)	27,046	27,046
Investments (note 6(a))	31	-
Investments in associated company (note 6(b))	1,873	860
	<b>39,598</b>	<b>38,692</b>
	<b>56,272</b>	<b>61,268</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (note 23)	976	2,312
Due to related party (note 18)	673	264
Current portion of capital lease obligations (note 12)	20	36
	<b>1,669</b>	<b>2,612</b>
Long-term		
Long-term liabilities (note 7)	386	386
	<b>386</b>	<b>386</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 8(a))	187,159	187,075
Contributed surplus (note 8(f))	3,702	3,811
Deficit	(135,749)	(131,871)
Accumulated other comprehensive loss (note 9)	(895)	(745)
	<b>54,217</b>	<b>58,270</b>
	<b>56,272</b>	<b>61,268</b>

See accompanying notes

Approved on behalf of the Board:



Jean-Charles Potvin  
Chairman



Roland Bertin  
Director

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT**

(Expressed in thousands of Canadian dollars)

**For the periods ended June 30**

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<b>June 30, 2009</b>	June 30, 2008	<b>June 30, 2009</b>	June 30, 2008
	<b>Unaudited \$</b>	Unaudited \$ (Restated – Note 6(a))	<b>Unaudited \$</b>	Unaudited \$ (Restated – Note 6(a))
<b>Capital stock</b>				
Balance at beginning of period	<b>187,159</b>	185,005	<b>187,075</b>	185,005
Issued through share bonus scheme	-	-	<b>84</b>	-
Balance at end of period	<b>187,159</b>	185,005	<b>187,159</b>	185,005
<b>Contributed surplus</b>				
Balance at beginning of period	<b>3,762</b>	3,757	<b>3,811</b>	3,812
Issued through share bonus scheme	-	-	<b>(84)</b>	-
Stock option market price adjustment (note 8(e))	<b>(60)</b>	(55)	<b>(25)</b>	(110)
Balance at end of period	<b>3,702</b>	3,702	<b>3,702</b>	3,702
<b>Deficit</b>				
Balance at beginning of period	<b>(133,518)</b>	(123,530)	<b>(131,871)</b>	(122,557)
Net loss for the period	<b>(2,231)</b>	(1,045)	<b>(3,878)</b>	(2,018)
Balance at end of period	<b>(135,749)</b>	(124,575)	<b>(135,749)</b>	(124,575)
<b>Other comprehensive loss</b>				
Balance at beginning of period	<b>(780)</b>	(156)	<b>(745)</b>	-
Unrealized loss on available-for-sale securities	<b>(115)</b>	(281)	<b>(150)</b>	(437)
Balance at end of period	<b>(895)</b>	(437)	<b>(895)</b>	(437)
<b>Total shareholders' equity at end of period</b>	<b>54,217</b>	63,695	<b>54,217</b>	63,695

*See accompanying notes*

# TIOMIN RESOURCES INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

For the periods ended June 30

	<i>For the three months</i>		<i>For the six months</i>	
	<b>June 30, 2009</b> Unaudited \$	June 30, 2008 Unaudited \$ (Restated – Note 6(a))	<b>June 30, 2009</b> Unaudited \$	June 30, 2008 Unaudited \$ (Restated – Note 6(a))
<b>EXPENSES</b>				
Kwale project (note 13)	223	374	447	653
Salaries and other compensation	286	366	594	832
Severance costs	-	8	-	171
Stock-based compensation	(60)	(55)	(25)	(110)
Office costs	49	64	113	124
Foreign exchange loss (gain)	188	(17)	124	(41)
Travel	14	40	66	119
Shareholders' information	30	11	89	55
Promotion	-	18	-	18
Professional fees	1,218	209	1,773	259
Charge on loan impairment (note 16)	-	-	227	-
Loss (gain) on disposal of fixed assets (note 3)	35	(9)	35	(43)
General exploration and write-off	43	24	101	72
Leasehold expenses (note 4)	3	1	9	3
<b>Loss before interest, equity loss, amortization and income taxes</b>	<b>2,029</b>	1,034	<b>3,553</b>	2,112
Interest and other income	(22)	(176)	(71)	(407)
Equity loss of associated company (note 6(b))	176	112	297	169
Interest expense	1	-	3	3
Amortization	47	75	96	141
<b>Loss before income taxes</b>	<b>2,231</b>	1,045	<b>3,878</b>	2,018
Current income tax provision (recovery) (note 10)	-	-	-	-
<b>Net loss for the period</b>	<b>2,231</b>	1,045	<b>3,878</b>	2,018
Unrealized loss (gain) on available-for-sale securities	115	281	150	437
<b>Comprehensive loss for the period</b>	<b>2,346</b>	1,326	<b>4,028</b>	2,455
Comprehensive loss and deficit, beginning of period	134,298	123,686	132,616	122,557
<b>Comprehensive loss and deficit, end of period</b>	<b>\$ 136,644</b>	125,012	<b>\$ 136,644</b>	125,012
Basic and diluted loss per share	<b>\$ 0.00</b>	\$0.00	<b>\$ 0.01</b>	\$0.00
Weighted average number of common shares outstanding	<b>480,471,581</b>	445,365,168	<b>480,643,637</b>	445,365,168

**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in thousands of Canadian dollars)

**For the periods ended June 30**

	<i>For the three months</i>		<i>For the six months</i>	
	<b>June 30,</b>	June 30,	<b>June 30,</b>	June 30,
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>Unaudited</b>	Unaudited	<b>Unaudited</b>	Unaudited
	<b>\$</b>	\$	<b>\$</b>	\$
		(Restated –		(Restated –
		Note 6(a))		Note 6(a))
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(2,231)	(1,045)	(3,878)	(2,018)
<i>Add (deduct) non-cash items</i>				
Unrealized foreign exchange	(156)	(1)	(108)	(4)
Equity loss of associated company	176	112	297	169
Share Valuation Adjustment - Freegold	2	-	(31)	-
Unrealized loss on Shares – Freegold	(1)	-	(36)	-
Amortization charges	47	75	96	141
Stock-based compensation expense	(60)	(55)	(25)	(110)
Leasehold expenses	3	1	9	3
Loss (gain) on disposal of fixed assets	35	(9)	35	(43)
<i>Changes in non-cash working capital</i>				
(Increase) decrease in receivables	362	(424)	486	(65)
Decrease in prepaid expenses	106	28	70	76
Increase (decrease) in accounts payable and accrued liabilities	117	(202)	(1,336)	(948)
Increase in due to related party	170	-	409	-
	<b>(1,430)</b>	<b>(1,520)</b>	<b>(4,012)</b>	<b>(2,799)</b>
<b>INVESTING ACTIVITIES</b>				
Mineral properties acquired	-	(901)	-	(901)
Deferred exploration and development expenditures	-	-	-	17
Net fixed assets acquisitions	-	-	(2)	(55)
Investments (note 6)	-	-	(1,424)	(2,000)
Proceeds on disposal of fixed assets	-	23	-	84
	-	(878)	(1,426)	(2,855)
<b>FINANCING ACTIVITIES</b>				
Payment on capital lease obligations	(9)	(17)	(16)	(49)
	(9)	(17)	(16)	(49)
Foreign exchange gain (loss) on cash	(22)	1	(12)	4
<b>Net decrease in cash and cash equivalents</b>	<b>(1,461)</b>	<b>(2,414)</b>	<b>(5,466)</b>	<b>(5,699)</b>
Cash and cash equivalents, beginning of period	15,295	26,160	19,300	29,445
<b>Cash and cash equivalents, end of period</b>	<b>13,834</b>	<b>23,746</b>	<b>13,834</b>	<b>23,746</b>
<b>Supplemental cash flow information</b>				
Interest received	22	176	71	407
Interest paid	1	-	3	3

*See accompanying notes*

## **TIOMIN RESOURCES INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Dollar amounts expressed in Canadian dollars unless stated otherwise)

**June 30, 2009**

#### **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.

These unaudited consolidated financial statements have been prepared on the basis that the Company is a “going concern”, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at June 30, 2009, the Company had no source of operating cash flows and may not have sufficient cash to fund the development of its properties. It may require additional financing, which if not raised, would result in the curtailment of activities.

There can be no assurances that the Company’s activities will be successful or sufficient funds can be raised in a timely manner. As a result, there is significant doubt regarding the “going concern” assumption and accordingly, the use of accounting principles applicable to a going concern. These unaudited consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. If the “going concern” assumption was not appropriate for these consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, expenses and balance sheet classifications, which could be material, would be necessary.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles (“GAAP”) and their basis of application is consistent with prior periods, except as disclosed below. 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
Leasehold improvements	5 years

**Investments:**

The Company holds investments as described in note 6. The investments have been classified as available-for-sale and, accordingly, the investments will be measured at fair value with revaluation gains and losses included in other comprehensive income ("OCI"), a component of shareholders' equity, until the investments are disposed of or permanently impaired.

Investments in marketable securities are recorded at fair value with changes in fair value being recognized in OCI. Where an active market does not exist, the investment is carried at cost.

**Investments in Associated Companies**

Investments in companies through which the Company exerts significant influence over the Investee are accounted for the equity method. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the following:

- the Company's pro-rata share of post acquisition income or loss (including the Company's proportionate share of discontinued operations and extraordinary items) relating to the Investee, subsequent to the date when the use of the equity method first became appropriate. Such amounts will be included when determining the Company's net income (loss) in the period being reported;
- the Company's proportionate share of a change in an accounting policy, a correction of an error relating to prior period financial statements and capital transactions (including amounts recognized in OCI) of the Investee, subsequent to the date when the use of the equity method first became appropriate; and
- the Company's proportion of dividends paid by the Investee, subsequent to the date when the use of the equity method first became appropriate.

Any excess paid for net assets will first be assigned to specific assets and liabilities. The unassigned portion will be considered goodwill, which will be subject to an annual impairment test.

**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 are 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 or less at the time of acquisition.

**Long-Lived Asset Impairment:**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the long-lived asset compared to the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value. The amount of the impairment loss, if any, which is the excess of the net carrying value over fair value, is charged to income for the period. Fair value is generally measured equal to the estimated future discounted net cash flows from the asset.

**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 income tax asset will not be realized, the future income 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(e). 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 ongoing remeasurement of the outstanding contributed surplus. At the time of exercise, capital stock is credited with the amount, if any, of the outstanding contributed surplus.

For options granted after June 11, 2007, compensation expense is calculated at the amount by which the quoted market price exceeds the exercise price with ongoing remeasurement of the outstanding contributed surplus. At the time of exercise, capital stock is credited with the amount, if any, of the outstanding contributed surplus.

#### **Comprehensive Income:**

The Canadian Institute of Chartered Accountants' (“CICA”) Section 1530, *Comprehensive Income*, introduces comprehensive income, which includes net income and OCI. OCI represents changes in shareholders' equity during a period arising from such items as unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale investments, and changes in the fair value of the effective portion of cash flow hedging instruments.

#### **Financial Instruments:**

Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification:

- Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income (loss).
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in OCI until the asset is removed from the consolidated balance sheets.
- Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.
- Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.
- Transaction costs will be recognized in net income (loss).

CICA Handbook Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation* replace CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 14 to the consolidated financial statements.

**Joint Venture Accounting:**

Joint ventures are accounted for under the proportionate consolidation method.

**Capital Disclosures:**

CICA Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook Section in note 17 to the consolidated financial statements.

**Changes in Accounting Policies:***Goodwill and Intangible Assets*

In October 2007, the CICA approved Handbook Section 3064, *Goodwill and Intangible Assets* which replaces the existing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. For the six months ended June 30, 2009, this standard had no impact on the Company's consolidated financial statements.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The Company has assessed the impact of adopting this standard and the effects have been reflected in the Company's consolidated financial statements.

**Future Accounting Changes:***International Financial Reporting Standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian entities with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

*Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

**Measurement Uncertainty:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Significant balances and transactions affected by management estimates include mineral properties, deferred exploration and development, and the short-term loan. Actual results could differ from those estimates. The recoverability of mineral property expenditures and deferred exploration and development costs (note 5) are considered as indicated in the "Mineral Properties and Deferred Exploration and Development" section of this significant

accounting policies note. The recoverability of the short-term loan (note 16) is dependant primarily on the financial position of the borrower. In the event of a default, the recoverability of the loan amount will be based on the ability to liquidate the assets of the borrower and derive full value from its productive assets. By their nature these estimates are subject to measurement uncertainty and the effects of changes in such estimates on the consolidated financial statements could be significant.

### 3. FIXED ASSETS

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

	June 30, 2009 \$000's			December 31, 2008 \$000's		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computers	\$143	\$125	\$ 18	\$170	\$140	\$ 30
Furniture and fixtures	103	77	26	146	89	57
Software	159	126	33	159	100	59
Mining equipment	218	146	72	220	119	101
Vehicles	157	137	20	157	114	43
Leasehold improvements	-	-	-	31	23	8
Land	16	-	16	16	-	16
<b>Total</b>	<b>\$796</b>	<b>\$611</b>	<b>\$185</b>	<b>\$899</b>	<b>\$585</b>	<b>\$314</b>

During the period ended June 30, 2009, the Company disposed of or wrote off fixed assets totalling \$106,000. During the period ended June 30, 2009, the Company acquired fixed assets totalling \$2,000.

### 4. LONG-TERM LEASE PREPAYMENT

	(\$000's)
Cost as at December 31, 2008	\$792
Amortization for the period ended June 30, 2009	9
<b>Net book value as at June 30, 2009</b>	<b>\$783</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 84 years.

### 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 (cost - \$000's)						
	Opening balance January 1, 2009	Additions	Acquired	Written off	Cost June 30, 2009	Cost December 31, 2008
Kenya	\$5,828	\$-	\$-	\$-	\$5,828	\$5,828
Peru	3,811	-	-	-	3,811	3,811
Tanzania	41	-	-	-	41	41
<b>Total</b>	<b>\$9,680</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$9,680</b>	<b>\$9,680</b>

DEFERRED EXPLORATION AND DEVELOPMENT (cost - \$000's)						
	Opening balance January 1, 2009	Additions	Acquired	Written off	Cost June 30, 2009	Cost December 31, 2008
Kenya	\$23,986	\$-	\$-	\$-	\$23,986	\$23,986
Peru	2,868	-	-	-	2,868	2,868
Tanzania	192	-	-	-	192	192

Total	\$27,046	\$-	\$-	\$-	\$27,046	\$27,046
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## Kenya

In June 1996, the Company acquired from Pangea Goldfields Inc. (“Pangea”), subsequently purchased by Barrick Gold Corp. (“Barrick”), a 100% interest, subject to a 20% net profit interest royalty (“NPI”), in the exploration rights of three Special Licences along the Kenyan coast. Under the terms of the agreement, the Company must spend a minimum of US\$200,000 on exploration on the properties during the first year and complete a feasibility study within five years. If the properties are placed into production, Pangea will receive 20% of the net profits from any mining operation following payback of Tiomin’s capital investment in the mine and processing operation. In 2000, the Company completed a positive feasibility study and made a decision to proceed 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 (\$219,000 at the June 30, 2009 exchange rate) per annum on exploration. The Special Licences were renewed in April 2004 and 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 (\$8,000 at the June 30, 2009 exchange rate) per annum on exploration. This licence was added to the initial agreement with Pangea whereby Pangea retains a 20% NPI in the Kenyan properties. On July 6, 2004, the Company received a 21-year renewable Special Mining Lease for the Kwale property. On February 2, 2005, the Government of Kenya and the Company executed the Fiscal Investment Agreement pertaining to the Kwale project. According to the agreement, the Company committed to invest in the Kwale project not less than US\$150 million during the first five years of the term granted under the Special Mining Lease, inclusive of development capital invested to date. The fiscal terms of the agreement include a 50% reduction in the corporate tax rate for 10 years from the start of commercial production of the mine. The agreement is also subject to a 2.5% gross revenue (“FOB”) royalty to the Government of Kenya.

In April 2006, the Company entered into an agreement with Barrick to buy back the 20% NPI from Barrick’s subsidiary Pangea.

Pursuant to the terms of the buy-back, on August 8, 2006, Tiomin made a cash payment of US\$2.0 million to Barrick and issued five million common shares to Pangea at a deemed value of \$0.27 per common share, being the closing price of the previous day. 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.

The reader should refer to note 20 of the consolidated financial statements, which explains the proposed transaction announced by Tiomin and Jinchuan Group Limited (“Jinchuan”) on July 28, 2008. This transaction was not completed by November 1, 2008 as anticipated. Should this transaction not be completed at a mutually agreed later date, the project could suffer a permanent impairment, which could result in the project either being written down or written off. Due to the delay in the finalization of the contract, Jinchuan is currently covering all running costs of the project. At June 30, 2009, no further progress has been made to complete this transaction.

## Peru

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\$500,000 in 2005, US\$1.5 million on October 1, 2006 and US\$2.0 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\$2.0 million, consisting of:

- US\$1.0 million in exploration expenditures of which US\$300,000 is to be contributed before October 2005, and an additional US\$735,000 on September 27, 2006.
- US\$1.0 million in cash payments consisting of US\$100,000 in January 2005 and US\$400,000 in July 2005, 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 12, 2008, the Company announced that it has acquired a 49% interest in the 5,000 hectare (12,400 acre) Pukaqaqa Sur property, which is contiguous to Tiomin's existing resource at the Pukaqaqa Norte copper-gold project, located in central Peru. Tiomin and its 51% partner, Milpo, planned to explore the new property in 2008/2009. During June 2008, the Company paid Milpo US\$882,000, being its 49% share of the acquisition cost.

No activity has taken place during the six months ended June 30, 2009.

### **Tanzania**

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. During the quarter ended December 31, 2007, the Company, through its subsidiary Tiomin Minerals Limited, incorporated Tiomin Tanzania Limited and paid US\$20,000 for the exploration licence as described above. The licences are in good standing, however, no activity has occurred on these properties during 2008 or for the six months ended June 30, 2009.

### **Xinjiang Project - The People's Republic of China**

Through the acquisition of Radiant Resources Inc. ("Radiant"), as described in note 19, Tiomin effectively entered into an agreement on July 16, 2002 with the Xinjiang Bureau of Geology, Mineral Resources Exploration and Development, The People's Republic of China ("XB"). The term of the agreement is 50 years, subject to extension or reduction upon approval by both parties and registration with the Xinjiang Uygur Autonomous Regional Administration for Industry and Commerce. Pursuant to the agreement, exploration, development and production rights were acquired from the Xinjiang provincial government to a 4,500 square kilometre co-operation area in western China.

On January 12, 2005, a joint venture agreement was entered into by Radiant (51%) and Xinjiang Baodi Mining Co., Ltd. (49%), a wholly owned subsidiary of XB, stating that the parties will establish a jointly controlled entity named Xinjiang Pacific Resources Corporation ("XPRC") under the Law of The People's Republic of China on Chinese-Foreign Co-operative Joint Ventures. The purpose of XPRC will be to conduct venture exploration for deposits of gold and other mineral areas in the area; to develop and produce in respect to existing and newly found deposits such minerals and to sell such minerals and by-products from the processing of such minerals in markets and on the terms permitted by applicable Chinese laws and regulations. This agreement updated a previous agreement dated July 16, 2002. Pursuant to this updated agreement, the term continues to be 50 years and the Joint Venture Cooperation Area remains at 4,500 square kilometres.

The contributions to XPRC will occur in two phases. During 2008, phase one was completed at a cost of US\$1,500,000, earning Radiant 70% in XPRC.

Phase two, the mining and production phase, will occur after a resource is found and proven to be suitable for mining, and is proved by a feasibility study to be commercially suitable for mining. During this phase the parties to the joint venture will make their contributions based on their respective equity percentage. If a party to the joint venture is unable to make such contribution, the other party may elect to make such contribution and its interest in the joint venture will be adjusted accordingly.

The maximum equity interest the Company may obtain is 90%.

On February 18, 2009, management decided to suspend further exploration activities in the area after a previous Board of Directors' decision on January 19, 2009, to abandon and write off the Radiant exploration properties in China. As a result, charges for impairment in value of mineral properties and deferred exploration of \$2,144,000 and \$3,085,000, respectively, were recorded, effective December 31, 2008. At June 30, 2009, an amount of \$97,000 was expensed to general exploration. The Company has been unable to find another joint venture partner or other investor in order to obtain future value from the XPRC investment and during the quarter ended June 30, 2009 has abandoned the project.

6(a) **INVESTMENTS**

**Kivu Gold Corp.**

Kivu Gold Corp. (“Kivu”) is an exploration company focusing on sub-Saharan Africa. On February 14, 2008, the Company completed its first investment in Kivu, when it acquired 4,000,000 common shares of Kivu at \$0.50 per common share, or approximately 16.9% of the then 23,630,000 issued and outstanding common shares of Kivu. Non-related directors of Tiomin approved the initial investment based on their review and analysis, which included receiving an independent fairness opinion.

At December 31, 2008, the Investment was accounted for under the cost method. However, effective February 20, 2009, the Company has accounted for the Investment retroactively under the equity method, which results in equity losses being realized from February 14, 2008. During the six months ended June 30, 2009, \$297,000 was recorded as equity losses and the Company has recognized an unrealized loss in the amount of \$114,057 being recorded in comprehensive income (loss) due to the change in the market value. The prior period amounts have been restated as discussed below in note 6(b).

**Freegold Ventures Limited (“Freegold”)**

On January 15, 2009, the Company agreed to extend the bridge loan facility as described in note 16 and received 250,000 common shares at \$0.27 per common share of Freegold as a commission for the extension of the loan.

At June 30, 2009, the Company had only received 250,000 common shares, which are held as an available-for-sale security, and has recognized an unrealized loss in the amount of \$36,000 being recorded in other comprehensive loss due to the change in the market value (note 9).

6(b) **INVESTMENT IN ASSOCIATED COMPANY**

The Company’s carrying value of its investment in Kivu is as follows:

	As at June 30, 2009 \$000’s	As at December 31, 2008 \$000’s
Balance, beginning of period	\$860	\$ -
Acquisition cost:		
Private placement	1,424	2,000
	<b>2,284</b>	2,000
Equity loss at 16.9%	(9)	(395)
Combined equity loss at 33.49% and 33.35%	(288)	-
Other comprehensive loss	(114)	(745)
<b>Balance, end of period</b>	<b>\$1,873</b>	<b>\$ 860</b>

As at December 31, 2008, the Company held its investment at cost after an amount of \$1,140,000 was recognized in OCI. On February 20, 2009, the Company completed by way of private placement, \$1,424,375 worth of common shares of Kivu at a price of \$0.215 per Kivu common share, the Investment, thereby increasing its ownership from approximately 16.9% to approximately 33.5% of the outstanding common shares of Kivu. An independent technical review and fairness opinion was obtained in order to determine that \$0.215 was in fact a fair price.

On completion of the private placement, the Company determined that it has significant influence over Kivu and is thus required to adopt the equity method of accounting retroactively back to the initial private placement on February 14, 2008. In addition, the investment, results of operations (current period and prior periods presented), and retained earnings have been restated retroactively to apply the equity method. The retroactive equity losses for the year ended December 31, 2008 totalled \$395,000 (\$57,000 for the three months ended March 31, 2008) and the OCI was adjusted from \$1,140,000 to \$745,000 not effecting the carrying balance of Kivu at December 31, 2008.

During the six months ended June 30, 2009, \$297,000 was recorded as equity losses and the Company has recognized an unrealized loss in the amount of \$114,057 being recorded in other comprehensive loss due to the change in the market value.

The carrying amount of an investment in common stock of an investee that qualifies for the equity method of accounting as described above may differ from the underlying equity in the net assets of the investee. The difference should affect the determination of the amount of the investor's share of earnings or losses of an investee as if the investee were a consolidated subsidiary. However, if the investor is unable to relate the difference to specific accounts of the investee, the difference should be recognized as goodwill. In this case, as the transaction does not meet the criteria for a business combination, the purchase price discrepancy was assigned to mineral properties. The purchase price discrepancy at June 30, 2009 was \$1,987,534. As at June 30, 2009, the Company's ownership percentage in Kivu has decreased to 33.35%.

## 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 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 received \$386,000 of the maximum loan amount.

## 8. **CAPITAL STOCK**

### **a) COMMON SHARES**

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

	<b>Shares #</b>	<b>Amount \$000's</b>
Total common shares, January 1, 2008	445,365,168	185,005
Radiant Resources Inc. acquisition	28,898,635	2,023
Share bonus scheme	2,350,000	47
Total common shares, December 31, 2008	476,613,803	187,075
Share bonus scheme	4,200,000	84
Total common shares, June 30, 2009	<b>480,813,803</b>	<b>187,159</b>

On December 3, 2008, the Board of Directors of Tiomin approved "share bonuses" as described in note 8(e) totalling 6,750,000 common shares at a deemed price of \$0.02 per share. These shares may be issued up to February 28, 2009. At December 31, 2008, 2,350,000 common shares had been issued and during January 2009 another 4,200,000 common shares were issued with the balance of 200,000 being forfeited.

As part of the Radiant transaction described in note 19, Tiomin exchanged 28,898,635 common shares at a deemed value of \$0.07 per share, being the closing price on September 26, 2008.

### **b) SHAREHOLDER RIGHTS PLAN**

On December 10, 2008, the Board of Directors of the Company approved a shareholder rights plan (the "Rights Plan"). Under the Rights Plan, one right ("Right") will be issued in respect of each voting share held on December 10, 2008. No consideration is payable by a shareholder upon issuance of the Rights. The Rights Plan will terminate at the close of the annual meeting of shareholders in 2012, if not terminated earlier.

The Rights Plan is intended to ensure that, in the event of a bid for control of the Company, shareholders will receive full and fair value for their shares and will not be subject to abusive or coercive take-over strategies and that the Board of Directors will have sufficient time to evaluate the bid, negotiate with the bidder, seek alternative bidders and explore other ways of maximizing shareholder value.

Rights are not exercisable until certain events occur. If anyone (an "Acquiring Person") wishes to acquire 20%

or more of the Company's voting shares, this Acquiring Person may (i) negotiate terms which the Board of Directors of the Company approve as being fair to all shareholders or, alternatively (ii) without the Board of Directors approval, make a "permitted bid" which must contain provisions specified in the Rights Plan and be accepted by independent shareholders holding more than 50% of the then outstanding shares. If the Acquiring Person acquires 20% or more of the Company's voting shares other than as described above (subject to certain exemptions), the Rights will become exercisable, automatically allowing holders (other than the Acquiring Person) to purchase that number of common shares which have an aggregate market price equal to twice the exercise price of the Rights for a price equal to the exercise price. Effectively, this means a shareholder of the Company (other than the Acquiring Person) can acquire additional common shares from treasury at half their market price.

#### c) SHARE BUYBACK PLAN

On January 14, 2009, the Company announced that the TSX has accepted the Company's notice of its intention to purchase common shares pursuant to a normal course issuer bid.

Under this normal course issuer bid, Tiomin will be permitted to repurchase up to 5% of the common shares outstanding over a one-year period or an aggregate of up to 24,040,690 common shares. The purchases by the Company will be effected through the facilities of the TSX and will be made at the market price of the common shares at the time of purchase. As at June 30, 2009, there were 480,813,803 Tiomin common shares issued and outstanding. All shares purchased by the Company will be subsequently cancelled.

#### d) WARRANTS

The following warrants were outstanding as at June 30, 2009.

<b>Type</b>	<b>Total Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Jinchuan warrants	60,937,692	\$0.65	July 31, 2016
Nederlandse Financierings Maatschappijvoor Ontwikkelingslanden N.V	37,500,000	\$0.36	December 31, 2010
Radiant B warrants	4,451,287	\$0.50	January 1, 2010
Radiant compensation options	404,602	\$0.40	January 1, 2010
<b>Total</b>	<b>103,293,581</b>	<b>\$0.54</b>	

#### e) 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 and Special Meeting of Shareholders held on June 14, 2006, the shareholders approved the amendment of the Plan by 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 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 and Special Meeting of Shareholders held on June 11, 2007, the shareholders approved the cashless settlement alternative in connection with the exercise of options under the Plan and the addition of a provision whereby, if the expiry date of an option granted under the Plan would otherwise occur during or within 10 days following a Black-Out Period, the expiry date of such option shall be extended to the first business day which is at least 10 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:

	June 30, 2009		December 31, 2008	
	Options #	Weighted Average Exercise Price \$	Options #	Weighted Average Exercise Price \$
Outstanding, beginning of period	44,764,000	\$0.11	35,995,000	\$0.14
Granted	1,000,000	0.025	13,014,000	0.05
Exercised	-	-	-	-
Exercised cashless settlement method	-	-	-	-
Cancelled/expired	(5,994,196)	0.09	(4,245,000)	0.18
Outstanding, end of period	39,769,804	0.11	44,764,000	0.11
Options exercisable, end of period	39,769,804	\$0.11	44,764,000	\$0.11

The following table summarizes information about the stock options outstanding as at June 30, 2009:

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding as at June 30, 2009	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable as at June 30, 2009	Weighted Average Exercise Price \$
\$0.025	5,945,000	4.44	\$0.025	5,945,000	\$0.025
\$0.065	7,757,500	3.94	0.065	7,757,500	0.065
\$0.075	7,443,331	3.50	0.075	7,443,331	0.075
\$0.09	10,000,000	2.65	0.09	10,000,000	0.09
\$0.125	3,313,973	2.90	0.125	3,313,973	0.125
\$0.20 - 0.29	1,200,000	2.19	0.27	1,200,000	0.27
\$0.30 - 0.39	2,040,000	0.62	0.35	2,040,000	0.35
\$0.40 - 0.50	2,070,000	1.73	0.41	2,070,000	0.41
	39,769,804	3.18	\$0.11	39,769,804	\$0.11

**f) CONTRIBUTED SURPLUS**

	June 30, 2009 \$000's	December 31, 2008 \$000's
Balance, beginning of period January 1	\$3,811	\$3,812
Market price adjustment	(25)	(85)
Share bonus accrued/(exercised)	(84)	84
Balance, end of period	\$3,702	\$3,811

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 ongoing remeasurement of the outstanding contributed surplus. At June 30, 2009, the quoted market price of \$0.025 exceeded the exercise price on 5,945,000 stock options and therefore there was an adjustment during the quarter to contributed surplus of \$35,000 to bring the total balance related to the stock options up to \$60,000. At the time of exercise, capital stock is credited with the amount, if any, of the outstanding contributed surplus. Under the Share Bonus Plan (note 8(e)), \$84,000 of shares were issued during the six months ended June 30, 2009, which were declared but outstanding at December 31, 2008. Upon issuance, the amount was credited to capital stock and the balance removed from contributed surplus.

**9. ACCUMULATED OTHER COMPREHENSIVE LOSS**

	<b>June 30, 2009</b>
	<b>\$000's</b>
Accumulated other comprehensive loss, as at December 31, 2008	\$745
Unrealized loss on investment in available-for-sale securities	36
Unrealized loss on investment in associated company	114
Accumulated other comprehensive loss, as at June 30, 2009	<u>\$895</u>

During the six months ended June 30, 2009, an amount of \$36,000 was charged to accumulated other comprehensive loss relating to 250,000 common shares of Freegold as described in note 16. During the six months ended June 30, 2009 an amount of \$114,057 was charged to accumulated other comprehensive loss relating to its investment in Kivu as described in note 6 (b) above.

Amounts in accumulated other comprehensive loss have been restated.

**10. INCOME TAXES**

The components of the Company's future income tax assets are as follows for the years ended December 31, 2008 and 2007 respectively:

	<b>2008</b>	2007
	<b>\$000's</b>	\$000's
Non-capital losses carried forward	<b>\$ 7,011</b>	\$ 4,645
Resource-related deductions	<b>3,214</b>	2,957
Share issue costs	<b>672</b>	963
Fixed assets	<b>348</b>	259
Investments	<b>165</b>	-
<b>Future income tax assets</b>	<b>11,410</b>	8,824
Valuation allowance	<b>(11,410)</b>	(8,824)
<b>Net future income tax assets</b>	<b>\$ -</b>	\$ -

As at December 31, 2008, 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:

	\$000's
2009	\$1,497
2010	1,176
2013	657
2014	3,587
2015	2,021
2025	839
2026	5,542
2027	4,925
2028	3,931
	<u><b>\$24,175</b></u>

## 11. 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 \$43,440 or \$14 per square foot per annum of the rentable area is 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 ("TKL"), 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 or approximately \$1,309 Canadian dollars.

## 12. CAPITAL LEASE OBLIGATIONS

	\$000's
Total minimum lease payments	\$21
Less amount representing interest at 11%	1
Present value of net minimum capital lease payments	20
Current portion of obligations under capital leases	20
	\$ -

During the six months ended June 30, 2009, the Company, through its subsidiary TKL, paid \$16,000 (2008 - \$32,000) relating to the capital lease obligations, of which \$3,000 (2008 - \$3,000) was interest.

## 13. KWALE PROJECT

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

	<b>June 30, 2009</b> <b>3 months</b> <b>\$000's</b>	<b>June 30, 2008</b> <b>3 months</b> <b>\$000's</b>	<b>June 30, 2009</b> <b>6 months</b> <b>\$000's</b>	<b>June 30, 2008</b> <b>6 months</b> <b>\$000's</b>
Construction	<b>\$223</b>	\$374	<b>\$447</b>	\$653
	<b>\$223</b>	\$374	<b>\$447</b>	\$653

A decision was taken by the Company during December 2007 to reduce costs at its subsidiary TKL. On January 7, 2008, notice was given to all the staff that effective March 31, 2008, their services would no longer be required. A skeleton staff has been maintained while negotiations continue with Jinchuan. The Company continues to have security staff patrol the mineral properties.

## 14. FINANCIAL INSTRUMENTS

### Categories of financial assets and liabilities

Financial instruments are classified into one of the following five categories under Canadian GAAP: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying value of the Company's financial instruments is classified into the following categories:

	<b>June 30, 2009</b> <b>\$000's</b>	December 31, 2008 \$000's
Held-for-trading <sup>(1)</sup>	<b>\$13,834</b>	\$19,300
Available-for-sale <sup>(2)</sup>	<b>1,904</b>	860
Loans and receivables <sup>(3)</sup>	<b>2,548</b>	2,914
Other financial liabilities <sup>(4)(5)</sup>	<b>2,055</b>	2,998

(1) Includes cash and cash equivalents.

(2) Includes the Company's investments in the common shares of Kivu and Freegold.

(3) Includes receivables (Freegold and other receivables), but excludes prepaid share issuance costs and other prepaid expenses. Freegold is carried at net of an allowance for loan impairment of \$227,000.

(4) Includes accounts payable and accrued liabilities, future income tax liabilities, and capital lease obligations.

(5) Included is an amount of \$673,000 owing to Jinchuan, a related party to TKL. This amount is only payable

on completion of the transaction anticipated in note 20 below. If the transaction is not completed, Jinchuan will not be repaid.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### **Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's primary credit risk is on its bank accounts and fixed deposits, whose balance at June 30, 2009 was \$12,000,000, which are held with Royal Bank of Canada. The balance of \$1,834,000 is held with Standard Chartered Bank and Royal Bank of Canada. Other credit risk is attributable to Goods and Services Tax ("GST") and Value Added Tax ("VAT") of \$34,000 and VAT receivable of \$430,000 from the Federal Government of Canada and the Kenyan Revenue Agency. It should be noted that there is a greater risk with regards to the VAT receivable from the Kenya Revenue Agency.

The short-term loan of \$2,281,000 (\$2,071,000 plus the bad debt provision of \$210,000) to Freegold as discussed in note 16 also increases credit risk to the Company. The loan to Freegold is secured by a first priority pledge of the shares in Freegold's wholly owned U.S. subsidiaries and a general security agreement against the personal property of the Company.

### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at June 30, 2009, the Company had cash of \$1,834,000 and short-term fixed income deposits of \$12,000,000 (2008 - \$19,300,000) to settle current liabilities of \$1,669,000 (2008 - \$2,612,000). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

### **Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and gold and base metal prices.

#### **(a) Interest rate risk**

The Company is exposed to interest rate risks as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company has cash balances as discussed above and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The income earned on these bank accounts is subject to the movements in interest rates. Assuming the \$13,834,000 held in cash and short-term investments at June 30, 2009 had a +/- 1% change in interest rates, this would have an effect on loss before taxes of approximately +/- \$138,000 per year. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2009, the Company did have investments in investment-grade short-term deposit certificates.

#### **(b) Foreign currency risk**

As at June 30, 2009, the Company holds its cash and cash equivalents in Canadian dollars, U.S. dollars and Kenyan shillings as discussed above, representing the near-term operating costs to be incurred in Kenya and to settle the current liabilities. The Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are held in the various currencies, are then translated into Canadian dollars. Foreign exchange fluctuations occur against the various currencies. A +/- 1% change in the exchange rates between the Canadian and the various currencies would, based on the Company's consolidated financial statements at June 30, 2009, have an effect on loss before income taxes of approximately +/- \$25,000.

#### **(c) Price risk**

The Company is exposed to price risk with respect to gold and base metal prices. Gold and base metal price risk is defined as the potential adverse impact on earnings and economic value due to gold and base metal price movements and volatilities. The Company closely monitors prices of gold and other base metals to determine the appropriate course of action to be taken by the Company.

## Fair Value

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the consolidated balance sheet dates, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. GST and VAT receivable and advances are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2009, both the carrying and fair value amounts of the Company's financial instruments are equal.

Based on management's knowledge and experience of the financial markets, the Company believes that it does not have significant exposure to foreign exchange as it does not hold significant balances in foreign currencies. As the Company is not a producing entity, gold and base metal price movement does not pose a risk.

## 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<b>June 30, 2009 \$000's</b>	December 31, 2008 \$000's
Cash on hand and balances with banks	<b>\$ 1,834</b>	\$3,300
Short-term fixed income deposits	-	16,000
Long-term GIC deposit	<b>12,000</b>	-
	<b>\$13,834</b>	\$19,300

Short-term fixed income deposit in the amount of \$14,000,000 matured on March 18, 2009 and \$2,000,000 matured on January 9, 2009. The Company has reinvested \$12,000,000 into a cashable annual GIC. It is cashable at anytime without penalty.

## 16. FREEGOLD SHORT-TERM LOAN

On August 22, 2008, the Company announced that it would provide a bridge loan of US\$2 million to Freegold (TSX: ITF, OTCBB: FGOVF, Frankfurt: FR4), a company in which the President and CEO was a director. The President and CEO resigned as a director of Freegold in January 2009.

This US\$2 million loan completed a US\$4 million bridge loan financing obtained by Freegold, which closed the first US\$2 million tranche on July 31, 2008.

The bridge loan facility was to mature on January 15, 2009. Terms for this facility included an annual interest rate of 12.5%, a cash closing fee, and 350,000 warrants at \$0.55 each to purchase common stock of the Company valid for a two-year period. An amount of \$105,365 in interest was received and recorded at December 31, 2008.

On January 15, 2009, the Company agreed to extend the bridge loan facility until February 10, 2009. In consideration Freegold issued Tiomin an additional 250,000 common shares and repriced the 350,000 warrants to \$0.30 each.

On February 24, 2009, Tiomin and the other bridge lender reached an agreement with Freegold to further extend the maturity date of the combined US\$4.1 million in bridge loans to July 15, 2009. A further extension was granted until August 15, 2009. As consideration of this extension, the interest rate on the two loans was increased from 12.5% to 15.0%, and Tiomin and the other lender each will be receiving extension fees consisting of 360,000 common shares of Freegold (have not yet received these common shares), 500,000 warrants to purchase common shares of Freegold for a two-year period at a price of \$0.25/share, and US\$61,750, payable

upon the earlier of the receipt of new financing or March 31, 2009.

On April 1, 2009, Freegold announced that it was not able to pay the US\$61,750 loan extension fee due on March 31, 2009. Freegold has reached an agreement with its senior bridge loan lender and Tiomin for a further restructuring that provides an additional US\$200,000 of funding to Freegold. This amount was provided by the senior lender.

This restructuring also suspends the monthly payment of interest to the two bridge loan lenders that was to have commenced on April 1, 2009, and the payment of a 3% extension fee that was due on March 31, 2009. Under the revised documents, these interest and extension fee payments are being capitalized and added to the principal amounts due on the July 15, 2009 maturity date. Under this restructuring, and following this additional loan advance from the senior bridge loan lender, the amounts that will be due to the senior bridge lender and Tiomin on July 15, 2009 are US\$2.78 million and US\$2.25 million, respectively. As consideration for the above, the senior bridge loan lender will be receiving cash fees of \$35,000 along with one million common shares of the Company and 500,000 warrants to purchase common stock of the Company for a two-year period at a price of Canadian \$0.14/share.

Due to Freegold's inability to repay the Company on January 15, 2009 and the subsequent extensions to the loan, the Company has determined that the loan is impaired and has not recognized any interest, extension fees or commissions paid with Freegold common shares, and will only do so if and when the loan is repaid. In addition, during the quarter ended March 31, 2009, the Company recognized an allowance for an additional \$227,000. The impairment amount was determined by applying a premium factor to the loan interest rate, discounting the loan principal amount on that basis and comparing the amount to the carrying value.

Both loan facilities share the collateral, being a first priority pledge of the shares in Freegold's wholly owned U.S. subsidiaries and a general security agreement against the personal property of Freegold (including a second charge against the processing and private property assets currently collateralizing an equipment loan at Golden Summit). Tiomin's security interest in the collateral is subordinated to that of the first tranche lender, which provided the initial US\$2 million loan. Both loan facilities can be prepaid at any time, and all proceeds generated from subsequent financings must be used to repay the two facilities.

Tiomin is reviewing its options to exercise its security rights to recover the bridge loan in the most accretive way for its shareholders. In press releases Freegold says it is working to satisfy its various debt obligations and raise additional working capital, which may include the sale of individual projects. There is no assurance that Freegold will successfully conclude any such transaction or arrange financing to satisfy its creditors.

## **17. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The capital structure of the Company at June 30, 2009 consists of common shares and was \$187,159,000 as at June 30, 2009 (December 31, 2008 - \$187,075,000). The Company has issued common shares, warrants and agents' options from time to time to advance its projects through various stages of exploration; however, debt may be required to further the exploration and bring the projects into production. In order to meet the Company's objectives for managing capital, new common shares, warrants, agents' options and/or debt may be issued. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company currently has an interest in an exploration stage property in Peru through a joint venture; as such, the Company is dependent on external financing to fund its share of the joint venture activity. The Company also owns, through a wholly owned subsidiary, the Kwale project in Kenya that requires capital to construct and exploit the mineral resources. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital, which is sufficient to fund the joint venture activities, but not sufficient to develop the Kwale project. Jinchuan has been and continues to fund the monthly costs of Kwale. This is described in more detail in note 20. The Company also owns exploration stage properties through its recent acquisition of Radiant as disclosed in note 19. At December 31, 2008, the Radiant properties and deferred exploration has been written off and the Company is seeking a purchaser for the exploration properties. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended June 30, 2009. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

## **18. RELATED PARTY TRANSACTIONS**

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed upon between the parties.

- a) As discussed in note 6, the Company holds a 33.35% ownership interest in Kivu. The directors, officers and employees of the Company hold 12,550,000 common shares of Kivu, of which 10,000,000 common shares are held by Jean-Charles Potvin, the Chairman of Tiomin, and 1,250,000 common shares are held indirectly by Robert Jackson, the President and CEO of Tiomin, who are also directors of Kivu. The Chairman and the President and CEO receive no compensation from Kivu but have 700,000 and 400,000 stock options, respectively, at an exercise price of \$0.50.

The Company charges Kivu \$5,000 per annum for office space, and at June 30, 2009 an amount of \$2,500 was charged to Kivu. In addition amounts totalling \$20,488 were charged by the Company to Kivu for expenses incurred by Kivu and Jean-Charles Potvin and paid for by Tiomin. At June 30, 2009, Kivu owed the Company \$6,527. No services are provided and charged for by the Company.

- b) The Company also rents office space to Rukwa Uranium Inc. ("Rukwa"), a company in which the directors and officers of the Company hold common shares. The Company charges Rukwa \$5,000 per annum for office space and at June 30, 2009 an amount of \$2,500 was charged to Rukwa. No other services are provided and charged for by the Company. At June 30, 2009, the Company is owed \$1,342 by Rukwa.
- c) Jinchuan owns approximately 18.5% of Tiomin and has board representation. Tiomin and Jinchuan are currently in negotiations for Jinchuan to acquire 70% of TKL a wholly owned subsidiary of Tiomin as discussed in note 20. Jinchuan has advanced \$673,000 to TKL, which will only be repaid to Jinchuan if the transaction is completed. If the transaction is not completed Jinchuan will not be repaid.

## **19. RADIANT PURCHASE**

At a special meeting of Radiant shareholders held on September 23, 2008, the shareholders approved the proposed transaction, whereby holders of securities of Radiant received one common share, common share purchase warrant or option, as appropriate, of Tiomin in exchange for each common share, common share purchase warrant or option, as the case may be, of Radiant. The transaction was effected by way of a three-cornered amalgamation, whereby a newly incorporated wholly owned subsidiary of Tiomin amalgamated with Radiant and the resulting corporation, being Tiomin China Limited, will continue to carry out the business of Radiant. The transaction will be accounted for as a purchase for accounting purposes. The common shares of Radiant have been de-listed from the TSX-V.

The Company issued 28,898,635 shares to the shareholders of Radiant in exchange for all of the outstanding shares of Radiant. The value of the common shares issued was determined based on the closing market price of the Company's shares at September 26, 2008, being \$0.07 per common share. The acquisition has been accounted for as a purchase and the Company has allocated the purchase price of the acquisition based upon the preliminary estimate of the fair values of the assets acquired and liabilities assumed. These amounts would be refined as information relating to the valuation of the fair value of net assets and the determination of certain tax values of those assets were finalized, but this is no longer necessary as the project has been abandoned. This preliminary allocation is summarized as follows:

	<u>\$000's</u>
Cash	\$ 392
Receivables and prepaid expenses	50
Fixed assets (cost)	97
Less: Accumulated depreciation	(63)
Mineral properties and deferred exploration and development	4,837
Accounts payable and accrued liabilities	(2,351)
Future income tax liabilities	(222)
<b>Total</b>	<b>\$2,740</b>
<hr/>	
<b>Purchase price</b>	
Initial investment	\$ 500
Shares issued	2,023
Transaction costs	217
<b>Total</b>	<b>\$2,740</b>

The future income tax liabilities of \$222,000 are calculated on the excess of the purchase price over the fair market value of the net assets acquired at an appropriate tax rate in China for foreign enterprises.

On January 19, 2009, the Board of Directors took the decision that management may, in its best determination, abandon and write off the Radiant exploration properties in China. This resulted in \$1,922,000 and \$3,085,000 being written off for mineral properties and deferred exploration and development, respectively after netting related future income tax recoveries. The future income tax liability related to this property was consequently reversed. The Company was unable to recover the fixed assets in China and has written off \$24,029 during the second quarter.

## 20. PROPOSED TRANSACTION

On July 28, 2008, Tiomin and Jinchuan of China entered into a Memorandum of Understanding (“MOU”), whereby Jinchuan will acquire 70% of TKL by investing US\$25 million into TKL, a wholly owned subsidiary of Tiomin that owns 100% of the Kwale Mineral Sands Project (“Kwale” or the “project”). Jinchuan’s investment will entitle it to a 70% interest in TKL and through its shareholding, the project. Under the terms of the MOU, Jinchuan will procure all financing, on normal commercial terms, to develop Kwale. The transaction (which is subject to certain conditions, including definitive documentation) was expected to close by no later than November 1, 2008 or at a mutually agreed upon date.

Under the terms of the MOU, Jinchuan shall provide or arrange on commercially acceptable terms the balance of the financing required by TKL for the construction, development and daily operation of Kwale. On commencement of commercial production, all net cash flow generated by Kwale will be used to repay the outstanding loans provided by Jinchuan. Thereafter, net free cash flow will be distributed pro-rata to the shareholders of TKL. Jinchuan will be responsible for the construction, development and management of Kwale and the management of TKL.

For closing to take place, certain conditions must be met, including board approval for both companies, a formal valuation of Tiomin’s interest in TKL, regulatory approval, Barrick’s consent through its subsidiary, Pangea, on its “right of first refusal” on any sale of interest in the four properties held in TKL, the completion of outstanding items by the Government of Kenya, definitive agreements between Tiomin, TKL and Jinchuan and Tiomin shareholders’ approval.

A condition of the MOU is that on closing TKL will reimburse the Company for certain costs incurred in order to conclude the financing of TKL. At June 30, 2009, prepaid costs of \$289,000 were incurred by the Company relating to the transaction.

21. **CONTINGENCY**

**Lawsuit**

In July 2009, a litigation with an exposure amount of £88,000, which existed at June 30, 2009 has been settled for a lesser amount and this full amount has been appropriately reflected in these consolidated financial statements.

22. **RECEIVABLES**

	<b>June 30, 2009 \$000's</b>	December 31, 2008 \$000's
Goods and Services Tax and Value Added Tax	<b>\$464</b>	\$382
Other	<b>13</b>	49
	<b>\$477</b>	\$431

GST of \$34,000 is owing to the Company by the Canada Revenue Agency and VAT of \$430,000 is owed by the Kenya Revenue Agency. The balance of \$13,000 is mainly attributable to staff advances in Kenya.

23. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2009 \$000's</b>	December 31, 2008 \$000's
Severance pay accrual	<b>\$ -</b>	\$ 626
Other	<b>976</b>	1,686
	<b>976</b>	\$2,312

At December 31, 2008, the compensation committee recommended to the Board of Directors, that in order to reduce long-term costs, that Jean-Charles Potvin, the Executive Chairman of Tiomin should be terminated and paid out his severance package in terms of his contract, which required two years of base pay and two years of paid bonuses. An amount of \$626,000 was paid to Mr. Potvin during January 2009. During the six months ended June 30, 2009, no severance payments have been paid.

24. **SUBSEQUENT EVENTS**

On July 22, 2009 Tiomin announced that its current board of directors, a former director, Freegold Ventures Limited and Kivu Gold Corp. ("Kivu") (collectively, the "Respondents") entered into a settlement agreement (the "Settlement Agreement") with Jaguar Financial Corporation ("Jaguar") to settle Jaguar's previously announced application to commence a derivative legal action against the Respondents. As at June 30, 2009, the costs of settling the litigation with Jaguar, including related professional and other fees totalled \$1,150,000. These settlement costs were appropriately accrued for in these consolidated financial statements.

The terms of the Settlement Agreement provide, among other things, that:

- The Settlement Agreement is not an admission of liability on the part of the Respondents.
- For a two year period, Jaguar and its associates will not (i) commence any action or proceeding against Tiomin and/or its officers and directors, in their capacity as officers and/or directors of Tiomin, (ii) take any action to remove or replace any of the current or future directors of Tiomin, (iii) "solicit" any "proxies" (as such terms are defined in National

Instrument 51-102), or (iv) take any action for the purpose of convening a shareholders' meeting of Tiomin.

- For a one year period, any Tiomin shares owned directly or indirectly by Jaguar and its associated companies will be voted in accordance with the direction of Tiomin's management, other than in the context of (i) any related party transaction (as such term is defined under Multilateral Instrument 61-101), (ii) any transaction in which any Tiomin director owns greater than 5% of the issued shares of a counterparty to the proposed transaction, or (iii) any proposed transaction in which a Tiomin director is concurrently a director of a counterparty to the proposed transaction.
- For a period of two years or unless and until Jaguar ceases to hold any shares of Tiomin, Tiomin shall not make any further investment in Kivu, whether directly or indirectly.

## **25. COMPARATIVE FIGURES**

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