

**TI  MIN**  
**RESOURCES INC.**

**TIOMIN RESOURCES INC.**

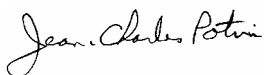
**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgements based on currently available information. The Company has developed and maintains systems of internal accounting control in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information, and that assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, comprised of non-management directors, which meets with the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements have been audited by Ernst & Young LLP Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.



Jean-Charles Potvin  
*President and  
Chief Executive Officer*



Bruce Ramsden  
*Vice President Finance  
and Chief Financial Officer*

March 24, 2005

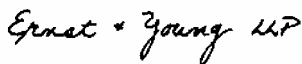
## AUDITORS' REPORT

To the Shareholders of **Tiomin Resources Inc.**

We have audited the consolidated balance sheets of **Tiomin Resources Inc.** (the "Company") as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada,  
March 3, 2006

**TIOMIN RESOURCES INC.**

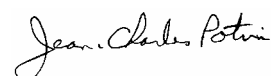
**CONSOLIDATED BALANCE SHEETS**

As at December 31 (Stated in Canadian dollars)


	2005	2004
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	5,704,641	1,050,113
Receivables	60,097	16,197
Prepaid expenses	44,500	489,316
	<u>5,809,238</u>	<u>1,555,626</u>
Fixed assets, net of accumulated depreciation (note 3)	936,772	725,609
Mineral properties (note 4)	2,397,582	1,161,802
Deferred exploration and development (note 4)	22,811,087	17,621,200
Deferred financing costs	58,998	-
	<u>26,204,439</u>	<u>19,508,611</u>
	<u><b>32,013,677</b></u>	<u><b>21,064,237</b></u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (note 5b)	1,164,222	343,635
Current portion of capital lease obligations (note 9)	37,908	-
	<u>1,202,130</u>	<u>343,635</u>
Long-term		
Capital lease obligations (note 9)	74,266	-
Long-term liabilities (note 5a)	386,262	386,262
	<u>460,528</u>	<u>386,262</u>
<b>SHAREHOLDER' EQUITY</b>		
Capital stock (note 6a )	104,994,856	92,154,473
Contributed surplus (note 6d)	1,944,321	661,255
Deficit	(76,588,158)	(72,481,388)
	<u>30,351,019</u>	<u>20,334,340</u>
	<u><b>32,013,677</b></u>	<u><b>21,064,237</b></u>

*See accompanying notes*

Approved on behalf of the Board:



Jean-Charles Potvin  
Chairman



Oliver Lennox-King  
Director



**TIOMIN RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31 (Stated in Canadian dollars)**

	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(2,776,761)	(1,610,957)
<i>Add (deduct) non-cash items</i>		
Depreciation charges	12,945	12,249
Compensation expense	948,282	195,739
Sublease expense	(31,992)	(34,669)
Fixed asset written off	3,890	-
<i>Change in non-cash working capital</i>		
(Increase) decrease in receivables	(43,900)	38,674
Decrease (increase) in prepaid expenses	444,816	(408,876)
Increase (decrease) in accounts payables and accrued liabilities	975,588	(82,207)
	<u>(467,132)</u>	<u>(1,890,047)</u>
<b>INVESTING ACTIVITIES</b>		
Mineral properties acquired	(1,235,780)	(89,768)
Deferred exploration and development expenditures	(5,165,225)	(2,036,732)
Net fixed assets acquisitions	(252,660)	(27,421)
	<u>(6,653,665)</u>	<u>(2,153,921)</u>
<b>FINANCING ACTIVITIES</b>		
Cash received for common shares	12,840,383	4,677,691
Payment on capital lease obligations	(10,835)	-
Share issue costs	(995,225)	(52,794)
Deferred finance costs	(58,998)	-
	<u>11,775,325</u>	<u>4,624,897</u>
Net increase in cash and cash equivalents	4,654,528	580,929
Cash and cash equivalents, beginning of year	1,050,113	469,184
<b>Cash and cash equivalents, end of year</b>	<b>5,704,641</b>	<b>1,050,113</b>
<b><u>Supplementary cash flow information</u></b>		
<b>Interest received</b>	<b>48,923</b>	<b>15,569</b>
<b>Interest paid</b>	<b>-</b>	<b>19,450</b>

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

## 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 year ended December 31, 2005 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.

### **Mineral Properties and Deferred Exploration and Development:**

Acquisition and exploration expenses relating to mineral properties with proven resource potential are deferred until the properties are brought into production, at which time they are depleted on a unit-of-production basis. If it is determined that capitalized acquisition, exploration and development costs are not recoverable over the economic life of the property, or the project is abandoned, the project is written down to its net realizable value. All other exploration expenses are expensed in the year that they occur. The Company does not accrue the future cost of maintaining the properties in good standing.

### **Fixed Assets and Depreciation:**

Fixed assets are stated at acquisition cost. Depreciation is provided on the straight-line basis over the following periods:

Computers	3 years
Vehicles	3 years
Furniture and fixtures	5 years
Mining equipment	3 years

### **Foreign Currency Translation:**

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rates. Non-monetary assets have been translated at the rates prevailing at the dates of acquisition. Revenue and expense items other than depreciation are translated at the average rates of exchange for the year. Any exchange gain or loss that arises on translation is included in the determination of net loss for the year.

### Cash and Cash Equivalents:

Cash and cash equivalents comprise cash on hand and short-term investments that mature within 90 days from date of acquisition.

### Income Taxes:

Current income taxes are recognized for the estimated income and mining taxes payable for the current 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 taxes are measured using the tax rates and laws that will be in effect when the differences are expected to reverse or the losses to be realized.

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

### Stock-based Compensation

The Company has a stock-based compensation plan that is described in note 7(c). Effective January 1, 2003, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation on a prospective basis, as permitted by the standard. This standard requires a fair value based method of accounting to be applied to all stock-based awards. Effective January 1, 2003, the Company accounts for employee stock-based compensation by measuring all awards granted on or after January 1, 2003 under the fair value based method of accounting, using the Black-Scholes pricing model. Consideration paid on the exercise of stock options and warrants is credited to capital stock.

## 3. FIXED ASSETS

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

	<b>December 31,2005 Cost</b>	<b>December 31, 2005 Accumulated depreciation</b>	<b>Net book value</b>	<b>December 31,2004 Cost</b>	<b>December 31, 2004 Accumulated depreciation</b>	<b>Net book value</b>
Computers	120,447	82,727	37,720	90,558	65,648	24,910
Furniture and fixtures	97,285	30,650	66,635	24,841	21,597	3,244
Equipment	94,815	60,021	34,794	57,289	54,642	2,647
Vehicles	124,681	19,757	104,924	12,902	9,771	3,131
Land	692,699	-	692,699	691,677	-	691,677
<b>Total</b>	<b>1,129,927</b>	<b>193,155</b>	<b>936,772</b>	<b>877,267</b>	<b>151,658</b>	<b>725,609</b>

During the year ended December 31, 2005, \$28,552 (2004 - \$9,632) of depreciation was capitalized to deferred exploration and development.

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

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

	<b>MINERAL PROPERTIES</b>		<b>DEFERRED EXPLORATION AND DEVELOPMENT</b>	
	December 31, 2005 (cost)	December 31, 2004 (cost)	December 31, 2005 (cost)	December 31, 2004 (cost)
Kenya	1,474,554	1,161,802	21,354,394	17,621,200
Peru	923,028	-	1,456,693	-
<b>Total</b>	<b>\$2,397,582</b>	<b>\$1,161,802</b>	<b>\$22,811,087</b>	<b>\$17,621,200</b>

In June 1996, the Company acquired from Pangea Goldfields Inc. (“Pangea”), subsequently purchased by Barrick Gold Corp., a 100% interest, subject to a 20% net profit interest royalty (“NPI”), in the exploration rights of three Special Licences along the Kenyan coast. Under the terms of the agreement, the Company must spend a minimum of US\$200,000 on exploration on the properties during the first year and complete a feasibility study within five years. If the properties are placed into production, Pangea will receive 20% of the net profits from any mining operation following payback of Tiomin’s capital investment in the mine and processing operation. In 2000, the Company completed a positive feasibility study and made a decision to proceed to production, thus satisfying the terms of the agreement with Pangea. The three Special Licences require the Company to spend a minimum of 14,000,000 Kenyan shillings (approximately US\$235,000) per annum on exploration. The licences were renewed in April 2004 and currently expire 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 (approximately US\$8,500) 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 2.5% gross revenue (FOB) royalty to the Government of Kenya.

In October 2004, the Company entered into a 49/51% joint venture agreement with Compania Minera Milpo S.A.A. (“Milpo”) for the exploration of the Pukaqaqa copper/gold deposit located on a 3,150 hectare land package in Peru. The Pukaqaqa deposit was discovered by Rio Tinto Mining and Exploration Ltd. (“RTZ”) in 1996. The property was subsequently optioned to Milpo in October 2001 for cash payments of US\$0.5 million in 2005, US\$1.5 million on October 1, 2006 and \$2 million on October 1, 2007. RTZ retains a net smelting return royalty of up to 1%.

According to the joint venture agreement the Company can earn 49% of Milpo's option interest in the property by contributing a total of US\$2 million, consisting of:

- US\$1 million in exploration expenditures of which US\$300,000 is to be contributed before October 2005 (paid), and an additional US\$700,000 before October 1, 2007.
- US\$1 million in cash payments consisting of US\$100,000 in January 2005 (paid) and US\$400,000 in July 2005 (paid), as per the agreement between Milpo and RTZ, and US\$300,000 towards the purchase of the Jupiter claim on behalf of the joint venture. The remaining US\$200,000 will be applied towards either the balance of property payments to RTZ or on further exploration work at the Company’s discretion.

Once the Company has earned in 49% of the option interest, it will share the balance of payments owed to RTZ equally with Milpo on a pro-rata basis. Effectively, the Company's pro-rata share of future property payments will then be US\$700,000, payable on October 1, 2006, and US\$1.0 million, payable on October 1, 2007. The total acquisition cost to Tiomin for its 49% interest in the Pukaqqa deposit is US\$3.7 million, which includes US\$1.0 million in new exploration expenditures.

## 5. 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 Programme. The proceeds of the loan were to be used to offset the cost of certain environmental work incorporated in the Kwale feasibility study. Under the terms of the agreement, Tiomin had to spend a minimum of \$1,480,000 on the feasibility study prior to June 30, 2000 in order to be entitled to the maximum loan amount of \$391,000. The loan is non-interest bearing and is repayable once the Company's cumulative product sales from the project exceed \$5 million. In the event that the Kwale project is not put into production or fails to achieve the sales threshold, the loan will be treated as a grant and the Company will not be required to repay the loan. The Company met the minimum level of expenses of \$1,480,000 and received \$386,000 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 represents net rent payments which will be made in 2005 to 2006. As at December 31, 2005, this amount has been included in accounts payable and accrued liabilities.

## 6. CAPITAL STOCK

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

	<u>Shares #</u>	<u>Amount \$</u>
Common shares, January 1, 2004	<b>102,834,574</b>	<b>87,476,782</b>
Issued upon exercise of options	967,000	298,600
Private placement	11,991,051	4,196,868
Issued upon exercise of warrants	674,900	182,223
Total common shares, December 31, 2004	<b>116,467,525</b>	<b>92,154,473</b>
Issued upon exercise of warrants	674,900	182,223
Private placement	33,217,111	12,658,160
Total common shares, December 31, 2005	<b>150,359,536</b>	<b>104,994,856</b>

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

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

On March 8, 2005, the Company announced that it had closed a private placement of \$7,000,000. The equity financing consisted of 17,500,000 units priced at \$0.40 per unit. Each unit entitles the holder to receive one common share of the Company and one-half common share purchase warrant with each full warrant convertible

into one common share of the Company for \$0.50 per share until March 8, 2007. In addition, the Company issued 1,050,000 compensation options to the underwriters. Each compensation option entitles the holder to purchase one unit (a "Compensation Unit") at a price of \$0.40 per unit at any time up until March 8, 2007. Each Compensation Unit consists of one common share and one-half of one Series J common share purchase warrant. Issue costs related to this equity financing amounted to \$808,305.

Included in share issue costs is \$276,892 estimated at the date of grant using the Black-Scholes pricing model for the Compensation Unit issued to the underwriters with the following assumptions: risk free interest rate of 3%, expected dividend yield of nil, expected volatility of 54.1% and expected option life of two years.

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

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

On April 28, 1997, the Company adopted a Shareholder Rights Plan. Each shareholder of record from the close of business on April 28, 1997 will be issued one right for each common share held. In the event that a bidder acquires 20% or more of the outstanding voting shares of the Company other than by a permitted bid or with the approval of the Board of Directors of the Company, the rights would become exercisable to purchase common shares of the Company at a 50% discount to the then current market price. The Shareholder Rights Plan was re-approved by the shareholders on June 20, 2002 and extended for a further five-year period.

## b) WARRANTS

The following is a list of the warrants outstanding as at December 31 2005. All warrants are convertible into one common share of the Company.

Type	Total Outstanding	Exercise Price	Expiry Date
Series I	5,965,529	\$0.50	Jun 15, 2006
Series J	9,275,000	\$0.50	Mar 8, 2007
Compensation Warrants	1,050,000	\$0.40	Mar 8, 2007
Series K	7,858,556	\$0.50	Jun 14, 2007
Bonus warrants	7,858,556	\$0.50	Dec 14, 2007
Compensation Warrants	943,027	\$0.36	Jun 14, 2007
<b>Total</b>	<b>32,950,668</b>	<b>\$0.49</b>	Jun 15, 2006 - Dec 14, 2007

Following the adoption of the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation, any compensation warrants are included as part of share issue costs. The valuation is done using the Black-Scholes pricing model.

The 674,900 Series G warrants outstanding at December 31, 2004 were all exercised on January 6, 2005 for proceeds of \$182,223.

c) **STOCK OPTIONS**

Under the Company's Stock Option Plan (the "Plan") established in 1996 and approved by shareholders in 1996, 2000 and 2004, 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 Plan shall not exceed 13,000,000. 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) and Common shares reserved for issuance under the Plan. Options granted since 1995 have a five-year term and are priced at the Toronto Stock Exchange closing price of the Company's common shares on the day immediately prior to the date of granting. Vesting provisions vary according to the terms of the individual granting.

A summary of the outstanding stock options is presented below.

	<b>December 31, 2005</b>		<b>December 31, 2004</b>	
	<b>Options</b>	<b>Weighted Average Exercise Price \$</b>	<b>Options</b>	<b>Weighted Average Exercise Price \$</b>
Outstanding, beginning of year	4,050,000	0.41	4,902,000	0.39
Granted	3,370,000	0.36	180,000	0.39
Exercised	-	-	(967,000)	0.31
Cancelled / expired	(1,010,000)	0.76	(65,000)	0.30
Outstanding, end of the year	<u>6,410,000</u>	<u>0.33</u>	<u>4,050,000</u>	<u>0.41</u>
Options exercisable at the end of year	<u><b>3,540,000</b></u>	<u><b>0.30</b></u>	<u><b>3,420,000</b></u>	<u><b>0.42</b></u>

The following table summarizes information about the stock options outstanding as at December 31, 2005.

	<b>OPTIONS OUTSTANDING</b>			<b>OPTIONS EXERCISABLE</b>	
<b>Range of Exercise Prices</b>	<b>Number Outstanding As at December 31, 2005</b>	<b>Weighted Average Remaining Life (years)</b>	<b>Weighted Average Exercise Price \$</b>	<b>Number Exercisable As at December 31, 2005</b>	<b>Weighted Average Exercise Price \$</b>
\$0.23-0.28	1,685,000	1.65	0.25	1,685,000	0.25
\$0.30 - 0.38	4,345,000	3.40	0.36	1,625,000	0.32
\$0.40 – 0.50	330,000	2.63	0.45	180,000	0.48
\$0.65	50,000	0.35	0.65	50,000	0.65
	<u>6,410,000</u>	<u>2.88</u>	<u>0.32</u>	<u>3,540,000</u>	<u>0.30</u>

In 2004, the fair value of the options granted during the year was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.0%, expected dividend yield of nil, expected volatility of 107% and expected option life of four years. Under this method of calculation, the fair value of the 180,000 stock options granted during the year ended December 31, 2004, was \$42,380. The expense related to the options granted is recognized by the Company during the vesting period of the options in

accordance with the Plan. As a result, \$195,739 has been included in contributed surplus and recognized as compensation expense in 2004, which includes \$164,598 for options granted prior to 2004.

During 2005, 3,370,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 3.63% to 3.84%, expected dividend yield of nil, expected volatility between 94.699% and 96.467% and expected option life of five years. Under this method of calculation, the fair value of the 3,370,000 stock options granted in 2005 is \$918,542. An amount of \$29,740 relates to options granted in 2003 and 2004 vesting in 2005. A total of \$948,282 is being recognized as a compensation expense over its vesting period and was included in the consolidated statements of operations and deficit for the year ended December 31, 2005 (2004 - \$195,739). During the year ended December 31, 2005, a total of 1,010,000 stock options were cancelled.

**d) CONTRIBUTED SURPLUS**

	<b>December 31, 2005</b>	December 31, 2004
Balance, beginning of year	<b>661,255</b>	465,516
Stock-based compensation during the year		
- Stock options granted	<b>918,542</b>	31,141
- Compensation shares vesting	<b>29,740</b>	164,598
- Share purchase warrants issued	<b>334,784</b>	-
Balance, end of year	<b>\$1,944,321</b>	\$661,255

7. **INCOME TAXES**

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

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

As at December 31, 2005, the Company had non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

2006	2,013,000
2007	2,233,000
2008	2,332,000
2009	1,372,000
2010	1,420,000
2011	3,193,000
2012	3,445,000
	<b>\$16,008,000</b>

8. **LEASE COMMITMENT**

The Company is committed to minimum annual rent under a lease, which expires on January 31, 2006. As at December 31, 2005, the future minimum annual rental payment, net of proceeds from subleases, is as follows:

2006	2,666
	<b><u>\$2,666</u></b>

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

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

9. **CAPITAL LEASE OBLIGATIONS**

Year ended December 31:		2005
2006		48,373
2007		48,373
2008		33,349
Total minimum lease payments	\$	130,095
Less amount representing interest at 11%		17,921
Present value of net minimum capital lease payments		112,174
Current portion of obligations under capital leases		37,908
	\$	<b><u>74,266</u></b>

During the year ended December 31, 2005, the Company through its subsidiary Tiomin Kenya Limited entered into capital leases of approximately \$145,119 for vehicles and a generator. Interest of approximately \$21,989 relating to the capital lease obligations has been included. During the year ended December 31, 2005, \$10,835 was paid, of which \$4,063 was interest.

10. **RELATED PARTY TRANSACTIONS**

During the first and second quarter of 2004, the Company borrowed a total of \$750,000 from two of its directors. The loans were repaid on June 16, 2004 and included \$19,450 of interest.

11. **SUBSEQUENT EVENT**

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