

TI  MIN
RESOURCES INC.

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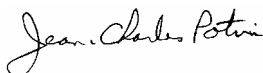
**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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 judgments 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
Chief Executive Officer



Bruce Ramsden
*Vice President Finance
and Chief Financial Officer*

March 23, 2007

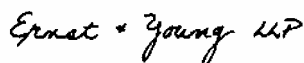
AUDITORS' REPORT

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

We have audited the consolidated balance sheets of **Tiomín Resources Inc.** (the "Company") as at December 31, 2006 and 2005 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, 2006 and 2005 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,
February 23, 2007

TIOMIN RESOURCES INC.

CONSOLIDATED BALANCE SHEETS

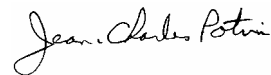
(Expressed in thousands of Canadian dollars)

As at December 31

	<u>December 2006</u>	<u>December 2005</u>
ASSETS		
Current		
Cash and cash equivalents	34,566	5,705
Restricted cash (note 12)	1,166	-
Receivables	1,749	60
Prepaid expenses	89	44
	<u>37,570</u>	<u>5,809</u>
Fixed assets, net of accumulated amortization (note 3)	1,400	937
Mineral properties (note 5)	7,715	2,398
Deferred exploration and development (note 5)	26,934	22,810
Deferred financing costs (note 6)	-	59
	<u>36,049</u>	<u>26,204</u>
	<u>73,619</u>	<u>32,013</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 4)	10,331	1,164
Current portion of capital lease obligations (note 11)	77	38
	<u>10,408</u>	<u>1,202</u>
Long-term		
Capital lease obligations (note 11)	110	74
Long-term liabilities (note 7)	386	386
	<u>496</u>	<u>460</u>
SHAREHOLDER' EQUITY		
Capital stock (note 8a)	174,103	104,995
Contributed surplus (note 8d)	2,657	1,944
Deficit	(114,045)	(76,588)
	<u>62,715</u>	<u>30,351</u>
	<u>73,619</u>	<u>32,013</u>

See accompanying notes

Approved on behalf of the Board:



Jean-Charles Potvin
Chairman



Oliver Lennox-King
Director

TIOMIN RESOURCES INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

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

For the years ended December 31

	2006	2005
	<hr/>	<hr/>
EXPENSES		
Kwale project (note 13)	30,830	-
Salaries and other compensation	2,018	1,769
Office costs	215	165
Foreign exchange (gain)/ loss	(220)	29
Travel	393	177
Stock exchange fees	15	13
Shareholders' information	121	95
Promotion	221	192
Professional fees	292	233
General exploration and write-off	50	132
	<hr/>	<hr/>
Loss before interest and amortization	33,935	2,805
Interest income	(1,083)	(45)
Interest expense	11	4
Amortization	45	13
	<hr/>	<hr/>
Net loss for the year	32,908	2,777
Share issue costs	4,549	1,330
Deficit, beginning of year	76,588	72,481
	<hr/>	<hr/>
Deficit, end of year	114,045	76,588
	<hr/>	<hr/>
Basic and diluted loss per share	\$ 0.09	\$ 0.02
	<hr/>	<hr/>
Basic and diluted weighted average shares outstanding	372,694,536	132,107,971

See accompanying notes

TIOMIN RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

For the years ended December 31

	2006	2005
	<hr/>	<hr/>
OPERATING ACTIVITIES		
Net loss for the year	(32,908)	(2,777)
<i>Add (deduct) non-cash items</i>		
Kwale project expenses	24,437	-
Amortization charges	45	13
Compensation expense	808	948
Sublease expense	(3)	(32)
Fixed asset written off	28	4
<i>Change in non-cash working capital</i>		
(Increase) decrease in receivables	(1,689)	(44)
Decrease (increase) in prepaid expenses	(45)	445
Increase (decrease) in accounts payable and accrued liabilities	9,282	976
	<hr/> (45) <hr/>	<hr/> (467) <hr/>
INVESTING ACTIVITIES		
Mineral properties acquired	(3,968)	(1,236)
Deferred exploration and development expenditures	(3,990)	(5,165)
Construction in progress (note 4)	(11,909)	-
Net fixed assets acquisitions	(670)	(253)
Restricted cash	(1,166)	-
	<hr/> (21,703) <hr/>	<hr/> (6,654) <hr/>
FINANCING ACTIVITIES		
Cash received for common shares	67,664	12,841
Payment on capital lease obligations	(40)	(11)
Share issue costs	(4,549)	(995)
Deferred financing costs (note 6)	(12,466)	(59)
	<hr/> 50,609 <hr/>	<hr/> 11,776 <hr/>
Net increase in cash and cash equivalents	28,861	4,655
Cash and cash equivalents, beginning of year	<hr/> 5,705 <hr/>	<hr/> 1,050 <hr/>
Cash and cash equivalents, end of year	34,566	5,705
<u>Supplementary cash flow information</u>		
Interest received	1,083	49
Interest paid	11	-
	<hr/> 11 <hr/>	<hr/> - <hr/>

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2006

1. NATURE OF OPERATIONS

Tiomin Resources Inc. (the “Company” or “Tiomin”) and its subsidiaries have mineral exploration properties located mainly in Kenya. The Company is a development stage enterprise and currently has no significant revenue from operations. The exploration and development of mineral properties involves significant financial risk. The recoverability of the amounts shown for the mineral properties and the related deferred expenditures is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, confirmation of the Company’s and its subsidiaries’ interest in the underlying mineral claims, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

The consolidated financial statements for the year ended December 31, 2006 have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition:

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

Mineral Properties and Deferred Exploration and Development:

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

Construction in Progress:

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

Fixed Assets and 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

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 amortization 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 with remaining maturity dates of 90 days or less at the time of acquisition.

Deferred Financing Costs:

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

Income Taxes:

Current income taxes are recognized for the estimated income and mining taxes payable for the current 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 8(c). Effective January 1, 2003, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation on a prospective basis, as permitted by the standard. This standard requires a fair value based method of accounting to be applied to all stock-based awards. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds, together with the amount recognized in contributed surplus are recorded in capital stock.

3. **FIXED ASSETS**

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

December 31						
	2006 Cost	2006 Accumulated amortization	2006 Net book value	2005 Cost	2005 Accumulated amortization	2005 Net book value
Computers	168	106	62	120	83	37
Furniture and fixtures	122	47	75	97	30	67
Software	90	-	90	-	-	-
Mining equipment	350	79	271	95	60	35
Vehicles	350	141	209	125	20	105
Land	693	-	693	693	-	693
Total	1,773	373	1,400	1,130	193	937

During the year ended December 31, 2006, \$134 (2005 - \$29) of amortization was capitalized to deferred exploration and development.

4. **CONSTRUCTION IN PROGRESS**

	2006
Opening balance	-
Additions	11,909
Written-off	(11,909)
Closing balance	\$-

Construction in progress was to be represented by the expenditure under a construction contract, which included a contract of US\$22 million entered into with Ausenco International Pty Ltd. based in Queensland, Australia ("Ausenco") for the engineering, procurement, commissioning and construction management of the mining facilities at the Kwale project in Kenya. Ausenco was to provide engineering, procurement and construction management, expertise in design, project management, construction, completion and commissioning of the processing plant and facilities until the project was suspended in December 2006 due to legal and bureaucratic delays that negatively impacted the project's rate of return to Tiomin's shareholders.

Included in construction in progress are the local infrastructure, including the port facilities road access and other infrastructure, which was being managed by local Kenyan contractors until the project was suspended.

Local contractors Laigi Meghji Patel and Company were awarded the tender for the construction of the port facilities, and a local project management consulting firm, Muambi Associates, was retained as quantity surveyors.

A decision was taken during January 2007 to cancel a number of these contracts and write-off the amounts charged to construction in progress as the amounts expended to date are not expected to be recoverable if the project continues at a later date. Included in accounts payable and accrued liabilities are \$6,396 related to cancellation fees. Additional amounts may be payable, however the Company is not in a position to estimate the amount, if any, of such fees.

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			December 31, 2005 (cost)
	December 31, 2006 (cost)	December 31, 2006 (write-down)	December 31, 2006 (balance)	
Kenya	\$5,964	\$-	\$5,964	\$1,475
Peru	1,744	-	1,744	923
Tanzania	7	-	7	-
Total	\$7,715	\$-	\$7,715	\$2,398

	DEFERRED EXPLORATION AND DEVELOPMENT			December 31, 2005 (cost)
	December 31, 2006 (cost)	December 31, 2006 (write-down)	December 31, 2006 (balance)	
Kenya	\$23,986	\$-	\$23,986	\$21,353
Peru	2,786	-	2,786	1,457
Tanzania	162	-	162	-
Total	\$26,934	\$-	\$26,934	\$22,810

In June 1996, the Company acquired from Pangea Goldfields Inc. (“Pangea”), subsequently purchased by Barrick Gold Corp. (“Barrick”), a 100% interest, subject to a 20% net profit interest royalty (“NPI”), in the exploration rights of three Special Licences along the Kenyan coast. Under the terms of the agreement, the Company must spend a minimum of US\$0.2 million on exploration on the properties during the first year and complete a feasibility study within five years. If the properties are placed into production, Pangea will receive 20% of the net profits from any mining operation following payback of Tiomin’s capital investment in the mine and processing operation. In 2000, the Company completed a positive feasibility study and made a decision to proceed to production, thus satisfying the terms of the agreement with Pangea. The three Special Licences require the Company to spend a minimum of 14,000,000 Kenyan shillings per annum on exploration. The licenses were renewed in April 2004 and have been renewed in 2006.

In April 1997, the Company acquired a fourth licence in Kenya known as Kwale. The licence was for an initial term of two years and required the Company to spend a minimum of 500,000 Kenyan shillings per annum on exploration. This licence was added to the initial agreement with Pangea whereby Pangea retains a 20% NPI in the Kenyan properties. On July 6, 2004, the Company received a 21-year renewable Special Mining Lease for the Kwale property. On February 2, 2005, the Government of Kenya and the Company executed the Fiscal Investment Agreement pertaining to the Kwale project. According to the agreement, the Company committed to invest in the Kwale project not less than US\$150 million during the first five years of the term granted under the Special Mining Lease, inclusive of development capital invested to date. The fiscal terms of the agreement include a 50% reduction in the corporate tax rate for ten years from the start of commercial production of the mine. The agreement is also subject to a 2.5% gross revenue (FOB) royalty to the Government of Kenya.

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

On August 8, 2006 Tiomin paid Barrick US\$2.0 million and issued five million common shares at a deemed value of \$0.27 per common share being the closing price of the previous day. Pursuant to the terms of the buy-back, Tiomin agreed to make a cash payment of US\$2.0 million and issue five million common shares of the Company to Pangea. Tiomin has also agreed to make a cash payment of US\$1.0 million, only if and when commercial production is reached, for each of the other properties (Kilifi, Vipingo and Mambui), or if Tiomin sells an interest in any such property to a third party, Pangea will have the right of first refusal on any sale of interest in the four properties mentioned above.

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

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

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

The Company will continue to fund its 49% share of the Pukakuqa copper project in Peru. It has commenced a 14,000 meter drilling program, which was expected to be completed by year-end. Drilling continued into January 2007 and results of the program are pending.

On May 2, 2006 the Company announced that it has 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. 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 100% interest in this exploration licence upon the payment of US\$20,000 at any time. The Company will continue to explore in Tanzania during 2007.

6. DEFERRED FINANCING COSTS

	2006	2005
Financing commissions	\$ 7,430	\$ -
Legal fees	3,356	59
Agent fees	498	-
Commitment fees	695	-
Other	546	-
Deferred financing costs written-off	(12,525)	
Total	\$ -	\$59

On July 31, 2006, the Company announced that it had structured a financing package totalling US\$201 million for the construction and development of the Kwale mineral sands project in Kenya. The Company entered into definitive agreements with respect to the project's debt financing totalling US\$155 million. On February 13 & 14, 2007 the Company cancelled the facility as it was unable to meet the conditions precedent to drawdown due to legal and bureaucratic delays caused by the Government of Kenya, which negatively impacted the project's rate of return and resulted in an equity shortfall to finance the project and accordingly all costs incurred have been written off. The Company continues to source additional funds, a partner or a buyer for the project

7. LONG-TERM LIABILITIES

a) Development Loan

On April 22, 1999, the Canadian International Development Agency and the Company entered into a loan agreement under the Industrial Overseas Development Programme. The proceeds of the loan were to be used to offset the cost of certain environmental work incorporated in the Kwale feasibility study. Under the terms of the agreement, Tiomin had to spend a minimum of \$1,480,000 on the feasibility study prior to June 30, 2000 in order to be entitled to the maximum loan amount of \$391,000. The loan is non-interest bearing and is repayable once the Company's cumulative product sales from the project exceed \$5 million. In the event that the Kwale project is not put into production or fails to achieve the sales threshold, the loan will be treated as a grant and the Company will not be required to repay the loan. The Company met the minimum level of expenses of \$1,480,000 and received \$386,262 of the maximum loan amount.

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 were made in 2005 and 2006. As at December 31, 2006, this amount has been included in accounts payable and accrued liabilities.

8. CAPITAL STOCK

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

	<u>Shares #</u>	<u>Amount</u>
Common shares, January 1, 2005	116,467,525	\$92,154
Private placement	33,217,111	12,658
Issued upon exercise of warrants	674,900	182
Total common shares, December 31, 2005	150,359,536	\$104,994
Private placement	16,520,000	7,434
Prospectus offering	200,000,000	60,000
Pangea royalty	5,000,000	1,350
Issued upon exercise of options	815,000	230
Black Scholes value of options exercised	-	95
Total common shares, December 31, 2006	372,694,536	\$174,103

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, and these warrants expired on June 15, 2006).

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

On March 8, 2005, the Company announced that it had closed a private placement of \$7,000,000. The equity financing consisted of 17,500,000 units priced at \$0.40 per unit. Each unit entitles the holder to receive one common share of the Company and one-half common share purchase warrant with each full common share 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 Units issued to the underwriters with the following assumptions: risk-free interest rate of 3%, expected dividend yield of nil, expected volatility of 54.1% and expected option life of two years.

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

Included in share issue costs for the year ended December 31, 2006 is \$57,892 estimated at the date of grant using the Black-Scholes pricing model for the Compensation Units issued to the underwriters with the following assumptions: risk-free interest rate of 4%, expected dividend yield of nil, expected volatility of 25.7% and expected option life of 18 months.

During 2006, Jinchuan Group Limited (“Jinchuan”) of the People’s Republic of China signed a subscription agreement and closed a private placement on April 27, 2006. The equity financing consisted of 16,520,000 units priced at \$0.45 per unit. Each unit entitles the holder to receive one common share of the Company and one-half common share purchase warrant with each full warrant convertible into one common share of the Company for \$0.55 per share until July 27, 2007. In addition, the Company granted one right to acquire an additional one-half of one common share purchase warrant. Each right entitles the holder to acquire one-half of one Bonus Warrant for no additional consideration in the event that prior to December 31, 2006 the Company announces an offering of common shares or securities convertible into common shares at a purchase price (or exercise price) of less than \$0.45 per share (the “New Issue”). Each whole Bonus Warrant, if used, will entitle the holder to acquire one common share at \$0.55 per share for a period of 15 months after the closing date of the New Issue.

On June 6, 2006 the Company announced that it had closed a best efforts public equity offering (the “Offering”) to raise approximately \$50 million to be used to construct and develop the Company’s Kwale titanium mineral sands project in Kenya. The Offering consists of approximately 166,666,667 Subscription Receipts at a price of \$0.30 per Subscription Receipt with each Subscription Receipt entitling the holder to acquire, for no additional consideration, one common share and one-half of one Series O common share purchase warrant of the Company (each whole Series O common share purchase warrant a “Warrant”). Each Warrant shall entitle the holder to acquire an additional common share at a price of \$0.36 per common share for a period of 18 months. In addition, the Agents exercised their option to increase the Offering by \$10.0 million to \$60 million. As a result, the Offering consisted of approximately 200,000,000 Subscription Receipts at a price of \$0.30 per Subscription Receipt as described above.

The gross proceeds of the Offering were deposited with Computershare Trust Company of Canada in escrow pending the satisfaction of certain release conditions (the “Release Conditions”). The Release Conditions were met to the satisfaction of the Agents on July 31, 2006 and the Subscription Receipts were exercised into common shares and Warrants and the escrowed funds released to the Company.

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

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

For the year ended December 31, 2006, 815,000 stock options were exercised for proceeds of \$229,750.

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

b) WARRANTS

The following is a list of the warrants outstanding as at December 31, 2006. All warrants are convertible into one common share of the Company.

Type	Total Outstanding	Exercise Price	Expiry Date
Series J	9,275,000	\$0.50	Mar 8, 2007
Compensation Warrants	1,050,000	\$0.40	Mar 8, 2007
Series K	7,858,556	\$0.50	Jun 14, 2007
Compensation Warrants	943,027	\$0.36	Jun 14, 2007
Series L	8,260,000	\$0.55	July 27, 2007
Bonus Warrants	8,260,000	\$0.55	July 27, 2007
Series O	100,000,000	\$0.36	January 31, 2008
Jinchuan Warrants	60,937,692	\$0.65	July 31, 2016
FMO Warrants	37,500,000	\$0.36	December 31, 2010
Total	234,084,275	\$0.46	

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

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

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

At the Annual Special Meeting held on June 14, 2006, the shareholders approved the amendment of the Plan from fixing the maximum number of common shares reserved for the issuance and replacing it with a "rolling" number, which would result in 10% of the number of issued and outstanding common shares of the Company at the time of any option grant being reserved. The total number of common shares which may be reserved for issuance to any one individual under the Plan shall not exceed 5% of the total number of issued and outstanding common shares (on a non-diluted basis) under the Plan. Options granted since 1995 have a five-year term and are priced at the closing price of the Company's common shares on the day immediately prior to the date of granting. Vesting provisions vary according to the terms of the individual granting.

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

A summary of the outstanding stock options is presented below.

	December 31, 2006		December 31, 2005	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	6,410,000	\$0.33	4,050,000	\$0.41
Granted	3,950,000	0.36	3,370,000	0.36
Exercised	(815,000)	0.28	-	-
Cancelled / expired	(430,000)	0.42	(1,010,000)	0.76
Outstanding, end of the year	9,115,000	0.34	6,410,000	0.33
Options exercisable at the end of year	7,481,666	\$0.35	3,540,000	\$0.30

The following table summarizes information about the stock options outstanding as at December 31, 2006.

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding As at December 31, 2006	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable As at December 31, 2006	Weighted Average Exercise Price \$
\$0.20 - 0.29	2,505,000	2.78	\$0.25	1,155,000	\$0.24
\$0.30 - 0.39	4,160,000	2.59	0.34	4,076,666	0.34
\$0.40 - 0.50	2,450,000	4.07	0.41	2,250,000	0.41
	9,115,000	3.04	\$0.34	7,481,666	\$0.35

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 between 3.63% to 3.84%, expected dividend yield of nil, expected volatility between 94.699% and 96.467% and expected option life of five years. Under this method of calculation, the fair value of the 3,370,000 stock options granted in 2005 is \$918,542.

For the year ended December 31, 2006, 3,950,000 options were granted. The fair value of the options granted was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of between 3.86% and 4.17%, expected dividend yield of nil, expected volatility between 34.132% and 87.015% and expected option life of between two and five years. Under this method of calculation, the fair value of the 3,950,000 stock options granted during 2006 is \$807,771.

d) **CONTRIBUTED SURPLUS**

	December 31, 2006	December 31, 2005
Balance, beginning of year	\$1,944	\$ 661
Amortization of fair value of stock options	769	918
Compensation shares vesting	39	30
Stock options exercised	(95)	-
Share purchase warrants issued	-	335
Balance, end of year	\$2,657	\$1,944

9. **INCOME TAXES**

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

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

As at December 31, 2006, the Company had non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

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

10. **LEASE COMMITMENT**

On February 2, 2006, the Company entered into an office lease for approximately 3,103 square feet of space for five years commencing on July 1, 2006 and ending on August 31, 2011. During the period July 1, 2006 through August 31, 2011, a fixed minimum annual rent of \$43,442 or \$14 per square foot of the rentable area will be payable in equal monthly instalments of \$3,620.17 payable in advance on the 1st day of each month. Additional rent will be charged for a proportionate share of the costs of the operation, local taxes, utility costs and any special services provided to the tenant

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

The Company through its subsidiary has leased two houses on a property located in Ukundu, Kenya for a total monthly rental of 120,000 Kenyan shillings or approximately \$2,032. The lease is for two years and can be renegotiated.

11. **CAPITAL LEASE OBLIGATIONS**

Year ended December 31:		2006
2007		96
2008		79
2009		41
Total minimum lease payments	\$	216
Less amount representing interest at 11%		29
Present value of net minimum capital lease payments		187
Current portion of obligations under capital leases		77
	\$	110

During the year ended December 31, 2006, the Company through its subsidiary Tiomin Kenya Limited entered into capital leases of approximately \$111,780 (2005- \$145,119) for vehicles and a generator in 2005. Interest of approximately \$23,187 (2005 - \$21,989) relating to the capital lease obligations has been included. During the year ended December 31, 2006, \$51,002 was paid, of which \$11,270 was interest.

12. **RESTRICTED CASH**

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

13. **KWALE PROJECT**

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

	2006
Cancellation fees (note 4)	\$ 6,396
Construction in progress (note 4)	11,909
Deferred financing costs (note 6)	12,525
	\$30,830

14. **CURRENCY RISK**

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

15. **SUBSEQUENT EVENT**

On February 22, 2007 the Company granted 14,500,000 stock options to directors, officers, employees and consultants of the Company at \$0.09 per share. The options are for a period of five years and vest immediately. Of the total, executive management was granted 4,250,000 stock options or 29.3% of the total number granted.