



Titanium Resources Group Limited Preliminary Results

March, 6 2007: Titanium Resources Group (“TRG” or “the Company”) announces preliminary results for the period ended 31 December, 2006 (“the Period”).

Highlights

- Sales of US\$51.3 million (Yr to Dec '05, US\$337,000).
- Gross profit US\$21.5 million (Yr to Dec '05, US\$239,000).
- Attributable loss before taxation of US\$ 1.47 million, (Yr to Dec '05, US\$17.5 million).
- Profit after tax of US\$34 million due to recognition of US\$ 35.9 million deferred income tax losses.
- US\$9.7 million net cash generated from operations.
- Successful restart of operations at the Company’s mines.
- Good progress made on key projects: Dredge two; Dredge three; power house conversion to Heavy Fuel Oil (HFO); and feed preparation and dry plant upgrade.
- 50,000 tonnes of rutile and 631,326 tonnes of bauxite produced in six months to 31 December.
- Additional bauxite deposits identified at Sierra Minerals and rutile deposits at Sierra Rutile.
- Positive customer response to the Company’s Dredge D2 production, with interest expressed for D2’s entire production.
- A major bauxite customer has exercised an option to extend long-term off-take agreements.

Commenting on the results, TRG Chief Executive Len Comerford said:

“The last twelve months have been a very productive time for the Company as our mines were brought back into production. Significant progress has also been made in exploiting the growth potential at our operations.

“The Company has now reached run rates which exceed the target rates of production for both bauxite and rutile that were set out in the IPO Admission Document in August 2005. The Company is currently on track to double rutile production rates and is investigating ways of expanding bauxite production.”

“Operating costs per tonne of production have decreased and are expected to reduce still further during the year following the investments made in new plant and machinery.”

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Chief Executive's Review

The last twelve months have been a very productive time for the Company as our mines were brought back into production. Significant progress has also been made in exploiting the growth potential at our operations.

During the period we commissioned our rutile and bauxite mines and brought both mines back to their historical production levels.

We have also made good progress on our Dredge two project, Dredge three project, power house conversion to Heavy Fuel Oil (HFO), feed preparation and dry plant upgrade.

Production

At the beginning of the year both our mines were still undergoing large-scale refurbishment and redevelopment. Having completed these programmes we produced 73,802 tonnes of rutile and 13,819 tonnes of high TiO₂ Ilmenite from the Sierra rutile mine and we produced 1,072,159 tonnes of bauxite from the Sierra Minerals mine in the Period. In the six months to 31 December we produced more than 50,000 tonnes of rutile and in 630,018 tonnes of bauxite. We are confident that our mines will continue to achieve this rate of production in the period ahead.

We shipped our first bauxite in February 2006 and our first rutile in May 2006 from the port we operate at Nitti on the Sherbro river. Since then, shipments have been regular and uninterrupted.

The building of our second dredge commenced in earnest during the period. Our second dredge will double our rutile production capability to 200,000 tonnes per annum. We imported nearly 3,000 tonnes of structural elements and signed contracts for the dredge build, the processing equipment and the electrical and instrumentation supply and install elements of the project with recognized leaders in their fields. We are currently on schedule to commence commissioning in the 4th quarter 2007.

We purchased a third dredge which is expected to add another 40,000 tonnes per annum to production, making the Company the one of the largest, if not the largest natural rutile producer in the world. The dredge has been dismantled and is being readied for shipment to Sierra Leone.

Our new dredges will boost the wet plant concentrate we produce so in order to bring this to final product status we are upgrading our static land plant to a capacity of 270,000 tonnes of rutile per annum. The project concept has been agreed and is in a detailed engineering phase. It is scheduled to be completed in the 4th quarter 2007.

We continue to look at a range of other expansion possibilities to further increase rutile production.

| | H1 06 | H2 06 | Full Year |
|-------------------------|----------------------|----------------------|----------------------|
| | Produced (tonnes) | Produced (tonnes) | Produced (tonnes) |
| Standard grade rutile | 21,926 | 46,758 | 68,684 |
| Industrial grade rutile | 1,355 | 3,763 | 5,118 |
| Total rutile | 23,281 | 50,521 | 73,802 |
| | | | |
| Ilmenite | 4,177 | 9,642 | 13,819 |
| | | | |
| Bauxite | 442,141 | 630,018 | 1,072,159 |

Financials

The sales outcome for the period was significantly better than expected at the time of the Company's third quarter update issued in November with reported sales of US\$51.3 million (Yr to Dec '05, US\$337,000). Attributable losses before taxation of US\$ 1.47 million, (Yr to Dec '05, US\$17.5 million) reflected the cost control measures put in place in response to input cost increases.

During the year, the previous year's tax losses amounting to US\$261 million as at 31 December 2005 were agreed with the Commissioner of Income Tax. In line with IAS 12, a deferred tax asset has been recognised for the unused tax losses carried forward to the extent that it is reasonably foreseeable that taxable profits will be available against which the deductible temporary differences can be utilised. Thus a tax credit of US\$36 million has been recognised in 2006.

The return to production at the Company's two mines was reflected in the US\$9.7 million net cash generated from operations during the year compared to the US\$ 25.7 million of cash used in operating activities during the comparative period in 2005.

The Company also used US\$39 million of cash in investing activities during the period, mostly in respect of property plant and equipment but also in completion of the US\$2.2 million acquisition from Nord resources of their entire outstanding interest in TRG's Sierra Rutile Project.

Marketing

Demand for both our rutile products and ilmenite remains high given continued strong global demand in all market segments. Our marketing subsidiary has successfully sold all the products that the company will produce this year, and is currently concentrating on securing a variety of long and short-term contracts for our future production. With respect to bauxite, global demand remains strong as SML bauxite is used as a process 'sweetener' by major alumina refineries. One major buyer has extended its long term bauxite contract into 2009. The premium quality of

our titanium-bearing and bauxite products ensures continued market interest from existing and new customers, with the result that we can achieve consistently high sale prices for our products.

Exploration

We continue with our exploration programme and are encouraged by the successful results on the very prospective areas within our existing tenures but outside our current mine plans.

We have identified additional bauxite deposits at Sierra Minerals that will be mined in early 2007 and our mine plan for the Sierra Rutile mine is currently being amended as we find additional mineable rutile.

Our other projects in Sierra Leone are proceeding, notably at Turners' Peninsular, our exploration concession some 40km away from our current operation. However during the period we focused our efforts on near mine exploration at SML and SRL as we believe this will deliver greater value in the near term.

Cost Structure

In response to the cost impact of continued high oil prices, we announced a third key project during this period with the commitment to build a Heavy Fuel Oil fired power station to replace our old diesel fired station. At the current price differential between diesel and HFO, this project is projected to cut our fuel bills by approximately 50% and provide enough power for our expanded fleet of dredges. The four main units will be produced on schedule and shipped during April 2007.

While over the year prices for our products increased, we have also seen a jump in the operating costs at both of our operations, primarily from price increases in all key inputs. Our development and expansion programmes meant a significant cash reinvestment was being made in our operations.

The projects we are working on will make our rutile mine one of the lowest cost producers of natural rutile. We are focused on completing these projects within the scheduled time periods and within budget to realise the full potential of our assets.

We are examining our bauxite mine potential together with our operator PW Mining International Limited to increase production and enhance profitability.

Outlook

In rutile, marketing of the additional production arising from the Company's D2 Project is well underway with one major customer agreeing in principle to a new five-year contract for Standard Grade rutile from 2008 to 2012 with a minimum 33% increase in tonnage. Existing customers have also expressed significant interest in increasing their off-take agreements and it is intended to conclude these agreements in H1 2007. In addition, the increased production capability,

arising from the D2 Project, will permit the Company to develop its sales portfolio to those customers/industries it has been unable to supply during 2006/7.

With respect to the marketing of Industrial Grade rutile, the Company has attained a significant share of the global welding rod market. In addition, the expansion in production capability will permit the Company to target rapidly growing markets such as China and India. The Company is also confident of increasing its share of the European thermal insulation/ceramic market.

Our Bauxite production is still covered by long-term off-take agreements. One of our long-term contracts has been extended pursuant to its terms and we are looking to expand production.

The Company has now reached run rates which exceed the target rates of production for both bauxite and rutile that were set out in the IPO Admission Document in August 2005. The Company is currently on track to double rutile production rates and extend bauxite reserves within the current financial year.

Operating costs per tonne of production have decreased and are expected to reduce still further during the year following the investments made in new plant and machinery.

Financial Statements

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET - DECEMBER 31, 2006

| | Notes | 2006 USD'000 | 2005 USD'000 |
|--|--------|-----------------|-----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 92,665 | 61,279 |
| Intangible assets | 6 | 13,115 | 12,985 |
| Non-current receivables | 9 | 753 | 1,367 |
| Deferred tax assets | 10 (a) | 86,373 | 50,304 |
| | | 192,906 | 125,935 |
| Current assets | | | |
| Inventories | 11 | 15,054 | 7,155 |
| Trade and other receivables | 12 | 14,275 | 8,777 |
| Cash and cash equivalents | 28 (c) | 52,393 | 79,682 |
| | | 81,722 | 95,614 |
| Total assets | | 274,628 | 221,549 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 13 | 198,160 | 194,951 |
| Revenue reserve/(deficit) | | 20,869 | (13,577) |
| Equity holders' interest | | 219,029 | 181,374 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 15 | 36,856 | 28,390 |
| Provisions for liabilities and charges | 16 | 2,150 | 2,150 |
| | | 39,006 | 30,540 |
| Current liabilities | | | |
| Trade and other payables | 17 | 16,464 | 9,625 |
| Current tax liabilities | 18 (d) | 85 | 10 |
| Borrowings | 15 | 44 | - |
| | | 16,593 | 9,635 |
| Total liabilities | | 55,599 | 40,175 |
| Total equity and liabilities | | 274,628 | 221,549 |

These financial statements have been approved for issue by the Board of Directors on :-

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) **DIRECTORS**
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The notes which follow form an integral part of these financial statements.

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Notes | 12 months ended December 31, 2006 USD'000 | December 14, 2004 to December 31,2005 USD'000 |
|--|--------|---|---|
| Sales | 2 (o) | 51,304 | 337 |
| Cost of sales | 20 | <u>(29,764)</u> | <u>(98)</u> |
| Gross profit | | 21,540 | 239 |
| Other income | 22 | 2,812 | 1,721 |
| Operating expense | 20 | (58) | (2,598) |
| Administrative and marketing expenses | 20 | (16,011) | (14,828) |
| Other expenses | 20 | <u>(5,866)</u> | <u>(1,606)</u> |
| | | 2,417 | (17,072) |
| Exceptional item | 23 | (2,200) | - |
| Finance costs | 24 | <u>(1,694)</u> | <u>(489)</u> |
| Loss before taxation | 19 | (1,477) | (17,561) |
| Income tax | 18 (a) | <u>35,923</u> | <u>3,984</u> |
| Profit/(loss) for the year/period attributable to equity holders of the group | | <u><u>34,446</u></u> | <u><u>(13,577)</u></u> |
| Earnings/(loss) per share (USD) | | | |
| - basic | 26 (a) | <u><u>0.16</u></u> | <u><u>(0.16)</u></u> |
| - diluted | 26 (b) | <u><u>0.15</u></u> | <u><u>-</u></u> |

The notes which follow form an integral part of these financial statements.

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>Share capital</u> | <u>Revenue reserve/ (deficit)</u> | <u>Total</u> |
|------------------------------|--------------------------|---|-----------------------|
| | USD'000 | USD'000 | USD'000 |
| Balance at January 1, 2006 | 194,951 | (13,577) | 181,374 |
| Issue of share capital | 3,209 | - | 3,209 |
| Profit for the year | <u>-</u> | <u>34,446</u> | <u>34,446</u> |
| At December 31, 2006 | <u>198,160</u> | <u>20,869</u> | <u>219,029</u> |
| Balance at December 14, 2004 | - | - | - |
| Issue of share capital | 194,951 | - | 194,951 |
| Loss for the period | <u>-</u> | <u>(13,577)</u> | <u>(13,577)</u> |
| At December 31, 2005 | <u>194,951</u> | <u>(13,577)</u> | <u>181,374</u> |

The notes which follow form an integral part of these financial statements.

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | <u>Notes</u> | 12 months ended December 31, 2006 | December 14, 2004 to December 31, 2005 |
|---|--------------|--|---|
| | | USD'000 | USD'000 |
| Cash flows from operating activities | | | |
| Cash generated from/(absorbed in) operations | 28(a) | 7,308 | (26,974) |
| Interest received | | 2,542 | 1,277 |
| Interest paid | | (60) | - |
| Tax paid | | (71) | - |
| Net cash generated from/(used in) operating activities | | 9,719 | (25,697) |
| Cash flows from investing activities | | | |
| Acquisition of subsidiaries net of cash acquired | 27 | - | 32,553 |
| Purchase of property, plant and equipment | | (37,215) | (23,604) |
| Loans and advance granted | | (26) | (640) |
| Purchase of intangible assets | | (167) | - |
| Investments in financial assets | | (2,200) | - |
| Net cash (used in)/generated from investing activities | | (39,608) | 8,309 |
| Cash flows from financing activities | | | |
| Issue of ordinary shares | | - | 91,493 |
| Proceeds from long term borrowings | | 2,556 | 5,577 |
| Net cash from financing activities | | 2,556 | 97,070 |
| Net (decrease)/increase in cash and cash equivalents | | (27,333) | 79,682 |
| Movement in cash and cash equivalents | | | |
| At January 1, 2006 / December 14, 2004 | | 79,682 | - |
| (Decrease)/increase | | (27,333) | 79,682 |
| At December 31, | 28(c) | 52,349 | 79,682 |

The notes which follow form an integral part of these financial statements.

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

1. GENERAL INFORMATION

Titanium Resources Group Ltd is a public limited liability company incorporated and domiciled in the British Virgin Islands. The address of its registered office is at P.O.Box 173, Kingston Chambers, Road Town, British Virgin Islands.

These financial statements will be submitted for consideration and approval at the forthcoming Annual Meeting of shareholders of the group.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of Titanium Resources Group Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS). Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements are prepared under the historical cost convention, except that available-for-sale investments are stated at their fair value.

Amendments to published standards, Standards and Interpretations issued but not yet effective. Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted.

Except for IFRS 7, Financial Instruments: Disclosures, the Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective 1 January 2007), and IFRS 8, Operating segments (effective 1 January 2009), these standards, amendments and interpretations are not relevant to the Group's operations. IFRS 7, IFRS 8 and the Amendment to IAS 1 are disclosure requirements only and will not when adopted, affect the results of the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Investment in subsidiaries

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (its subsidiaries) made up to December 31, each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of their acquisition or up to the date of their disposal.

The trading subsidiaries listed in the note 7 below were acquired on May 16, 2005. At December 31, 2005, the consolidated income statement therefore includes trading results for the six and a half months to December 31, 2005 as

compared to a full year for year ended December 31, 2006.

The consolidated financial statements have been prepared in accordance with the purchase method. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement in the year of acquisition. The results of subsidiaries which are not consolidated are brought into the financial statements to the extent of dividends received.

All significant intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

(c) **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Cost also includes environmental decommissioning costs that are recognised as a liability.

Depreciation is provided on a straight line basis over the estimated useful lives of the assets.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Subsequent expenditure relating to an item of property, plant or equipment is capitalised when it is probable that the future economic benefits from the use of the asset will increase by more than the expenditure incurred. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Deposit, exploration, evaluation, mine development expenditure and deferred project expenditure

In respect of deposit, minerals, exploration, evaluation, and deferred project, expenditure is charged to the income statement as incurred except where:

- it is expected that the expenditure will be recouped by future exploitation or sale; or
- substantial exploration and evaluation activities have identified a mineral resource but these activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves in which case the expenditure is capitalised.

Expenditure relating to both deposit and dam development and mine development are accumulated separately for each identifiable area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure.

Expenditure is carried forward when incurred in areas where economic mineralisation is indicated, but activities have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing. Each such project is regularly reviewed. If the project is abandoned or it is considered unlikely that the project will proceed to development, accumulated costs to that point are written off immediately.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation. Projects are advanced to development status when it is expected that accumulated and future expenditure can be recouped through project development or sale.

Expenditure relating to other expenses consists primarily of costs which provides benefit to the development of the Mine in general and is not specifically identifiable to a particular project.

Mining leases

The Group's mining leases are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves on the leased properties to be mined in accordance with current production schedules.

(d) Amortisation and depreciation

Amortisation of deferred project expenditure is based on the estimated useful life of the asset to which the expenditure relates.

Depreciation is provided on all fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

| | |
|---|---|
| Building | - 4% |
| Infrastructure | - 4% |
| Plant, machinery & equipment | - 5% to 20% |
| Vehicles | - 3 to 5 years |
| Mineral rights | - Based on the estimated life of reserves |
| Exploration, evaluation and mine development expenditure, and expenditure on mineral rights | - Based on the estimated life on proven and probable reserves |

Changes in estimates are accounted for over the estimated remaining economic life of the remaining commercial reserves of each project as applicable.

(e) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Any net excess of the Group's interest in the net fair value of acquiree's net identifiable assets over cost is recognised in the income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gains and losses on disposal.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) *Computer software*

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives estimated to be 5 years.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(g) Foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using United States Dollars, the currency of the primary economic environment in which the entity operates("functional currency").

The consolidated financial statements are presented in United States Dollars, which is the group's functional and presentation currency.

(ii) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cashflow hedges and qualifying net investment hedges.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(h) **Financial instruments**

(i) **Financial assets**

Categories of financial assets

The group classifies its financial assets as available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) **Available-for-sale financial assets**

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Initial measurement

Purchases and sales of financial assets are recognised on trade date, the date on which the company commits to purchase or sell the asset. Investments are initially measured at fair value plus transaction costs for all financial asset except those that are carried at fair value through profit or loss.

Subsequent measurement

Available-for-sale financial assets are subsequently carried at their fair values.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same.

Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between acquisition cost and the current fair value, less any

impairment loss on that financial asset previously recognised in equity - is removed from equity and recognised in the income statement.

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument are not reversed through the income statement.

(ii) **Long term receivables**

Long term receivables with fixed maturity terms are measured at amortised cost using the effective interest rate method, less provision for impairment. The carrying amount of the asset is reduced by the difference between the asset's carrying amount and the present value of estimated cash flows discounted using the effective interest rate. The amount of loss is recognised in the income statement. Long term receivables without fixed maturity terms are measured at cost. If there is objective evidence that an impairment loss has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value (PV) of estimated cash flows discounted at the current market rate of return of similar financial assets.

(iii) **Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(iv) **Borrowings**

Borrowings are recognised initially at fair value being their issue proceeds net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after balance sheet date.

(i) **Inventories**

Inventories are stated at the lower of cost or net realisable value where cost is defined as follows:

| | |
|---------------------------|--|
| Titanium bearing minerals | - Production cost and attributable overheads |
| Concentrates | - Production cost |
| Washed bauxite | - Production cost and attributable overheads |
| Stockpiles | - Production cost |
| Materials | - Average cost |
| Fuel and sundry expenses | - Purchase cost |
| Goods-in-transit | - Invoice cost excluding freight |

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) **Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply in the period when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

(k) **Agricultural Development Fund**

The Group commits the higher of 0.1% (one tenth of one percent) of gross sales revenue in US dollars for each year (for rutile and ilmenite, it is based on gross sales free alongside ship at the Sierra Leone Port of Shipment) or USD75,000 and this shall be used exclusively for the development of agriculture in the areas affected by operations under the mining lease or in areas adjacent thereto within the same chiefdom. The annual amounts are paid over to the separate fund set up and controlled by the GOSL, Chiefdom representatives, and the Company's representatives.

(l) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are expensed.

(m) **Retirement benefit obligations**

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employees render the related service.

Long-term employee benefits

The Group does not operate any retirement benefit plan for its employees. For Sierra Leone based companies, the companies make a contribution of 10% of the employees basic salary to the National Social Security and Insurance Trust for payment of pension to staff on retirement. The employees also contribute 5% of their basic salary to the Trust

Share options scheme

The Group operates a share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

(n) **Provision for rehabilitation**

Costs of reclamation and rehabilitation are assessed on a regular basis and estimated costs are provided over the life of the Mine. The expenditure and provisions include costs of labour, materials, and equipment required to rehabilitate disturbed areas, cost of reclamation, plant and infrastructure closure and subsequent environmental monitoring. The estimates are not discounted and are based on current costs, legislature and community requirements and technology. Expenditure relating to ongoing rehabilitation and restoration programmes is charged against the provisions made.

(o) **Revenue recognition**

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

Sales of goods are recognised when goods are delivered and title has passed. Sales of services are recognised in the accounting year in which the services are rendered (by reference to completion of the specific transaction assessed on

the basis of the actual service provided as a proportion of total services to be provided).

Other revenues earned by the Group are recognised on the following bases:

- Interest income - on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost recovery basis as conditions warrant.
- Dividend income - when the shareholder's right to receive payment is established.

(p) **Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring which has been notified to affected parties and comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

3. FINANCIAL RISK FACTORS

3.1 **Financial risks factors**

The Group's activities expose it to a variety of financial risks:

- (a) market risk (including currency risk, fair value interest risk and price risk);
- (b) credit risk;
- (c) liquidity risk;
- (d) cash flow interest-rate risk; and
- (e) country risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

A description of the significant risk factors is given below together with the risk management policies applicable.

(a) **Market risk**

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro and Sterling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group places its excess of liquidity in stable currencies as a means to hedge its exposure to foreign currency risks.

(b) **Credit risk**

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

The Group has no significant credit risk for the time being, as sales are based on off-take agreements with corporate customers. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an

adequate amount of committed credit facilities. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) **Cash flow and fair value interest rate risk**

As the Group has significant interest-bearing assets, its income and operating cash flows are substantially dependent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

Group policy is to maintain all its borrowings in fixed rate instruments. At year end, all borrowings were at fixed rates.

(e) **Country risk**

The Group has two operating subsidiaries, namely Sierra Rutile Limited and Sierra Mineral Holdings 1 Limited, based at Sierra Leone. The Group has taken appropriate insurance cover to mitigate exposure to the risks present there.

3.2 **Fair value estimation**

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 **Critical accounting estimates and assumptions**

The *Group* makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) **Estimated impairment of goodwill**

The *Group* tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e)(i). These calculations require the use of estimates (note 6).

5. **PROPERTY, PLANT AND EQUIPMENT**

| | Infrastruct ure | Plant, machiner y and equipmen t | Marine fleet | Mineral sand prospect and Mine development | Capital work in progress | Powerhou se | Exploratio n | Rehabilita tion | Total |
|-----------------------------|--------------------|--|-----------------|--|--------------------------------|----------------|-----------------|--------------------|----------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| (a) COST | | | | | | | | | |
| At January 1, 2006 | 14,216 | 106,898 | 324 | 27,763 | 33,692 | - | - | 15,187 | 198,080 |
| Addition | 87 | 2,471 | 979 | 7,687 | 669 | 2,833 | 30 | 22,459 | 37,215 |
| Transfers | 5,524 | 21,873 | - | 5,864 | (7,441) | - | - | (25,820) | - |
| At December 31, 2006 | 19,827 | 131,242 | 1,303 | 41,314 | 26,920 | 2,833 | 30 | 11,826 | 235,295 |
| DEPRECIATION | | | | | | | | | |
| At January 1, 2006 | 13,668 | 98,241 | - | 24,724 | 168 | - | - | - | 136,801 |
| Charge for the year | 534 | 4,488 | 130 | 677 | - | - | - | - | 5,829 |
| At December 31, 2006 | 14,202 | 102,729 | 130 | 25,401 | 168 | - | - | - | 142,630 |
| NET BOOK VALUES | | | | | | | | | |
| At December 31, 2006 | 5,625 | 28,513 | 1,173 | 15,913 | 26,752 | 2,833 | 30 | 11,826 | 92,665 |

5. **PROPERTY, PLANT AND EQUIPMENT**

| | Infrastruct ure | Plant, machinery and equipment | Marine fleet | Mine development | Capital work in progress | Other expenses | Rehabilitation | Total |
|---------------------------------|--------------------|---|--------------|---------------------|-----------------------------|-------------------|----------------|----------------|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| (b) COST | | | | | | | | |
| At December 14, 2004 | | | - | - | - | - | - | - |
| Acq. thru' business combination | 14,057 | 105,944 | - | 27,660 | 26,920 | 3,912 | - | 178,493 |
| Addition | | | 324 | | 6,772 | - | 15,187 | 23,604 |
| Write off | | (105) | | | | | | |
| At December 31, 2005 | | 106,898 | 324 | 27,763 | 33,692 | - | 15,187 | 198,080 |
| DEPRECIATION | | | | | | | | |
| At December 14, 2004 | | | - | - | - | - | - | - |
| Acq. thru' business combination | 13,589 | 96,984 | - | 24,565 | 168 | - | - | 135,306 |
| Charge for the period | | 1,362 | | 159 | - | - | - | 1,600 |
| Write Off | | (105) | | | | | | |
| At December 31, 2005 | 13,668 | 98,241 | - | 24,724 | 168 | - | - | 136,801 |
| NET BOOK VALUES | | | | | | | | |
| At December 31, 2005 | | 8,657 | 324 | 3,039 | 33,524 | - | 15,187 | 61,279 |

- (c) During the period ended December 31, 2005 expenses relating to fulfilling the requirements of the Overseas Private Investment Corporation which were initially capitalised were written off as the loan facility was not utilised.
- (d) Expenditure capitalised in respect of the refurbishment of the mines amounted to USD 22m (2005: USD 15m). As at 31 December 2006, the refurbishment was still ongoing, therefore the cost was not depreciated. Similarly, depreciation has not been charged where the assets are presently not in the condition necessary to operate in the manner intended by management.
- (e) In period ended December 31, 2005, borrowings costs of USD 1.314m (including its related exchange difference) arising on the refurbishment of the mines were capitalised and were included in 'Additions'. A capitalisation rate of 8% was used, representing the borrowing cost of the loan used to finance the refurbishment activity.
- (f) Depreciation charge of USD 5,829,000 (2005: USD 1,600,000) has been charged in other operating expenses.

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

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| 6. INTANGIBLE ASSETS | Goodwill | Computer software costs | Total |
|-----------------------------|---|-------------------------|-----------------------------|
| | USD'000 | USD'000 | USD'000 |
| (a) COST | | | |
| At January 1, 2006 | 12,876 | 115 | 12,991 |
| Addition during the year | - | 167 | 167 |
| At December 31, 2006 | <u>12,876</u> | <u>282</u> | <u>13,158</u> |
| AMORTISATION | | | |
| At January 1, 2006 | - | 6 | 6 |
| Charge for the year | - | 37 | 37 |
| At December 31, 2006 | <u>-</u> | <u>43</u> | <u>43</u> |
| NET BOOK VALUE | | | |
| At December 31, 2006 | <u><u>12,876</u></u> | <u><u>239</u></u> | <u><u>13,115</u></u> |
| (b) COST | | | |
| At December 14, 2004 | - | - | - |
| Addition during the period | 12,876 | 115 | 12,991 |
| At December 31, 2005 | <u>12,876</u> | <u>115</u> | <u>12,991</u> |
| AMORTISATION | | | |
| At December 14, 2004 | - | - | - |
| Charge for the period | - | 6 | 6 |
| At December 31, 2005 | <u>-</u> | <u>6</u> | <u>6</u> |
| NET BOOK VALUE | | | |
| At December 31, 2005 | <u><u>12,876</u></u> | <u><u>109</u></u> | <u><u>12,985</u></u> |
| (c) | Amortisation charge of USD 37,000 (2005: USD 6,000) has been charged in other operating expenses. | | |
| (d) | Impairment tests for goodwill: goodwill is allocated to the Group's cash-generating units identified according to country of operation and business activity. | | |

7. **INVESTMENTS IN SUBSIDIARY COMPANIES**

(a) The list of the Company's significant subsidiaries is as follows:

| <u>Name</u> | <u>Class of shares held</u> | <u>Year end</u> | <u>Country of</u> | | <u>Direct</u> | <u>Indirect</u> | <u>Incorporation</u> | <u>business</u> |
|-------------------------|-----------------------------|-----------------|-------------------|-----------------|---------------|-----------------|----------------------|---|
| | | | <u>Direct</u> | <u>Indirect</u> | | | | |
| 2006 | | | | | | | | |
| Global Aluminium | Ordinary | December | 100% | | 100% | | British Virgin | Intermediate holding |
| Bauxite Marketing Ltd | Ordinary | December | | 100% | | 100% | British Virgin | Marketing of Bauxite |
| Sierra Mineral Holdings | Ordinary | December | | 100% | | 100% | British Virgin | Extraction of Bauxite |
| Titanium Fields | Ordinary | December | 100% | | 100% | | British Virgin | Intermediate holding |
| SRL Acquisition No.1 | 1 A | December | | 100% | | 100% | British Virgin | Intermediate holding |
| SRL Acquisition No.3 | Ordinary | December | | 100% | | 100% | British Virgin | Intermediate holding |
| The Natural Rutile | Ordinary | December | | 100% | | 100% | British Virgin | Marketing of Rutile |
| Sierra Rutile Holdings | Ordinary | December | | 100% | | 99.60% | British Virgin | Intermediate holding |
| Sierra Rutile Limited | Ordinary | December | | 100% | | 99.60% | Sierra Leone | Extraction, concentration of Rutile and Ilmenite sands. |
| 2005 | | | | | | | | |
| Global Aluminium | Ordinary | December | 100% | | 100% | | British Virgin | Intermediate holding |
| Bauxite Marketing Ltd | Ordinary | December | | 100% | | 100% | British Virgin | Marketing of Bauxite |
| Sierra Mineral Holdings | Ordinary | December | | 100% | | 100% | British Virgin | Extraction of Bauxite |
| Titanium Fields | Ordinary | December | 100% | | 100% | | British Virgin | Intermediate holding |
| SRL Acquisition No.1 | 1 A | December | | 100% | | 100% | British Virgin | Intermediate holding |
| SRL Acquisition No.3 | Ordinary | December | | 100% | | 100% | British Virgin | Intermediate holding |
| The Natural Rutile | Ordinary | December | | 100% | | 100% | British Virgin | Marketing of Rutile |
| Sierra Rutile Holdings | Ordinary | December | | 100% | | 100% | British Virgin | Intermediate holding |
| Sierra Rutile Limited | Ordinary | December | | 100% | | 100% | Sierra Leone | Extraction, concentration of Rutile and Ilmenite sands. |

(b) With the exception of Sierra Rutile Limited, all the subsidiaries are incorporated in the British Virgin Islands (BVI) where there is no legal requirement for the accounts. Titanium Resources Group Ltd is quoted on the AIM market of the London Stock Exchange which requires the publication of annual audited financial statements preparation and filing of audited Statements

TITANIUM RESOURCES GROUP LTD AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

8. FINANCIAL ASSETS

| | Available-for-sale financial assets | |
|--|--|------------------------|
| | <u>2006</u> USD'000 | <u>2005</u> USD'000 |
| (a) The movement in financial assets are as follows: | | |
| <u>Unlisted</u> | | |
| At January 1, | - | - |
| Additions | 2,200 | - |
| Impairment losses | <u>(2,200)</u> | - |
| At December 31, | <u>-</u> | <u>-</u> |

- (b) Financial assets represent 15/15 fractional interest in "Class B" Share of the subsidiary company, SRL Acquisition No.1 Limited, acquired from Nord Resources Corporation. The "Class B" Share confers to the group fixed dividend only and carries no voting rights. Since no other revenue is derived from SRL Acquisition No.1 Limited's activities in addition to no voting rights, the investment in the "Class B" Share has thus not been accounted for as subsidiary company as required by IAS 27.

9. NON-CURRENT RECEIVABLES

| | <u>2006</u> USD'000 | <u>2005</u> USD'000 |
|---|------------------------|------------------------|
| Loan to the Government of Sierra Leone (see note (a) below) | 727 | 727 |
| Other non-current receivables | <u>26</u> | <u>640</u> |
| | <u>753</u> | <u>1,367</u> |

- (a) This represents an amount loaned to Government of Sierra Leone (GOSL) to settle existing obligations to the International Finance Corporation. The loan is unsecured and payment was due at the end of 1995.

10. DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method at 30% / 37.5%.

- (a) There is a legally enforceable right to offset current tax assets against current tax liabilities and deferred income tax assets and liabilities when the deferred income taxes relate to the same fiscal authority.

The following amounts are shown in the balance sheet:

| | <u>2006</u> USD'000 | <u>2005</u> USD'000 |
|--------------------------|------------------------|------------------------|
| Deferred tax assets | 90,561 | 50,541 |
| Deferred tax liabilities | <u>(4,188)</u> | <u>(237)</u> |
| | <u>86,373</u> | <u>50,304</u> |

At balance sheet date, the group had unused tax losses of USD 301,871,000 (2005: USD 158,214,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses.

| | | | |
|------|---|----------------------|---|
| (b) | The movement on the deferred income tax account is as follows: | <u>2006</u> | <u>2005</u> |
| | | USD'000 | USD'000 |
| | At January 1, 2006/December 14, 2004 | 50,304 | - |
| | Acquisition through business combination | - | 46,315 |
| | Income statement credit (note 18(a)) | 36,069 | 3,989 |
| | At December 31, | <u>86,373</u> | <u>50,304</u> |
| (c) | The movement in deferred tax assets and liabilities during the year/period, without taking into consideration the offsetting of balances within the same fiscal authority, is as follows: | | |
| (i) | <u>Deferred tax liabilities:</u> | | Accelerated tax depreciation |
| | | | USD'000 |
| | At December 14, 2004 | | - |
| | Acquisition of subsidiary | | (99) |
| | Charged to Income statement | | (138) |
| | At December 31, 2005 | | (237) |
| | Charged to Income statement | | (3,951) |
| | At December 31, 2006 | | <u>(4,188)</u> |
| (ii) | <u>Deferred tax assets:</u> | | Tax losses |
| | | | USD'000 |
| | At December 14, 2004 | | - |
| | Acquisition of subsidiary | | 46,414 |
| | Credited to Income statement | | 4,127 |
| | At December 31, 2005 | | 50,541 |
| | Credited to Income statement | | 40,020 |
| | At December 31, 2006 | | <u>90,561</u> |
| 11. | INVENTORIES | <u>2006</u> | <u>2005</u> |
| | | USD'000 | USD'000 |
| (a) | Washed Bauxite | 604 | 20 |
| | Rutile and Ilmenite | 5,371 | - |
| | Consumables | 9,525 | 7,499 |
| | Less: provision for write down | (446) | (364) |
| | | <u>15,054</u> | <u>7,155</u> |
| (b) | The cost of inventories recognised as expense and included in cost of sales amounted to USD 5,955,000 (2005:USD 62,000) | | |
| 12. | TRADE AND OTHER RECEIVABLES | <u>2006</u> | <u>2005</u> |
| | | USD'000 | USD'000 |
| | Trade receivables | 8,855 | - |
| | Advances and prepayments | 5,420 | 8,738 |
| | Receivable from related parties | - | 39 |
| | | <u>14,275</u> | <u>8,777</u> |

The carrying amount of trade and other receivables approximates their fair value.

| 13. SHARE CAPITAL | Number of shares | Ordinary shares |
|---|---------------------|--------------------|
| | | USD'000 |
| (a) At December 14, 2004 | - | - |
| Issued in exchange for 100% holding in Global Aluminium Limited and Titanium Fields Resources Ltd | 100,000,000 | 100,000 |
| Proceeds from other new issues | 107,201,553 | 91,493 |
| Share option scheme: | | |
| - Employee - value of service provided | 2,989,985 | 2,634 |
| - Professional services | 936,007 | 824 |
| At December 31, 2005 | 211,127,545 | 194,951 |
| Share option scheme: | | |
| - Employee - value of service provided | 3,389,985 | 3,209 |
| At December 31, 2006 | 214,517,530 | 198,160 |

(i) The total authorised number of ordinary share is 500,000,000 shares (2005: 500,000,000 shares) with no par value. All issued shares are fully paid.

(ii) On incorporation, on December 14, 2004, 50,000 ordinary shares were issued at USD 1 each to the subscriber to the memorandum of association of the company.

On May 16, 2005, 1,000,000 ordinary shares were issued at USD 1 each as part of total consideration to gain 100% holding in Global Aluminium Limited and Titanium Fields Resources Ltd. On July 14, 2005, another 99,000,000 ordinary shares of USD 1 each were issued as final part of total consideration to gain the 100% holding.

On August 25, 2005, 87,151,553 ordinary shares were issued at 47 p each and were fully paid, on admission on the AIM market of the London Stock Exchange, for a total consideration of USD 73,762,983.

Another 20,000,000 ordinary shares were issued at 50 p each and were fully paid, on second placing to USD 17,680,000.equivalent

13. **SHARE CAPITAL**

(b) **Share options - Employees**

Share options are granted to directors and to selected employees. The exercise price of the granted option is equal to 47 p each, being the market price of the shares on the date of placement on the AIM market of the London Stock Exchange. One third of the option vested immediately, that is on 15 August 2005, one third vested on the first anniversary of the date of grant, that is on 15 August 2006 and the remaining third will vest on the second anniversary of the date of grant. The option will lapse and may not in any event be exercised later than the day before the fifth anniversary of the date of grant.

Certain employees and directors, who joined the company after the above share options grant date, were also granted share options at exercise prices of 53 p and 78 p each, varying on the vesting date. The intervals between the vesting dates is the same as the above, that is, one third immediately and the remaining two third within the next 2 years.

Exercise of the option is not subject to performance-related conditions.

(c) **Share options - Professional services**

In consideration of services given to the company by NabarroWells & Co Ltd, (NWCF LLP), the Company granted to NWCF LLP an option to subscribe for 936,007 common shares of no par value at a subscription price of 47p each.

14. **MINORITY INTEREST**

Pursuant to the First Amendment Agreement dated February 4, 2004, entered by and between the Government of the Republic of Sierra Leone (GOSL) and Sierra Rutile Limited (SRL) regarding PAYE taxes due from SRL (See note 31), SRL Acquisition No.3 Limited transferred 403 shares it held in Sierra Rutile Holdings Limited (SRHL) to GOSL, representing 0.4% ownership interest in SRHL and giving rise to a minority shareholder (GOSL).

At December 31, 2006, the consolidated financial statements of SRHL and SRL showed a negative interests. Consequently, losses attributable to the minority in the consolidated subsidiaries exceeded minority shareholders' interest in the subsidiaries' equity. These losses have thus been allocated against the majority interest. The GOSL's shareholding in SRHL will continue to increase upon future transfer of shares to the GOSL as and when the corresponding PAYE amount is being assigned.

Any future reported profit by SRHL and SRL would be allocated to the majority interest until the GOSL's share of losses previously absorbed by the majority interest is recovered.

15. **BORROWINGS**

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|----------------------|----------------------|
| | USD'000 | USD'000 |
| (a) Non-current : | | |
| Government of Sierra Leone loan | 36,856 | 28,220 |
| Loans from related company | - | 170 |
| | <u>36,856</u> | <u>28,390</u> |
| Current: | | |
| Bank overdraft | 44 | - |
| Total borrowings | <u><u>36,900</u></u> | <u><u>28,390</u></u> |

(i) The rates of interest on the loans vary between 8% to 15%.

(ii) Government of Sierra Leone borrowing is subject to interest of 8% per annum and is repayable on June 15 and December 15 in each year commencing on the first payment date which is the earlier of 84 months after date of first disbursement or June 15, 2012. The interest is calculated on the basis of a 360 day year consisting twelve, thirty day months.

The Group does not have any undertaking, nor is it contractually bound to create, any lien on or with respect to any of its rights or revenues.

The interest is classified as non current as according to section 3.03 of the Loan Agreement between Sierra Rutile Limited and the Government of Sierra Leone, the first interest payment shall not be made by the company until the earliest of the interest payment date occurring thirty – six months after the date of first disbursement, or June 15, 2008. All interest accruing on the principal balance outstanding from time to time on the loan until the first interest payment is due shall be added to the principal balance of the loan and shall accrue interest on the same terms.

- (b) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

| | 6 or less USD'000 | 6 -12 months USD'000 | 1 - 5 years USD'000 | Over 5 years USD'000 | Total USD'000 |
|------------------------------------|-------------------------|----------------------------|---------------------------|----------------------------|------------------|
| <u>At December 31, 2006</u> | | | | | |
| Total borrowings | <u>44</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,900</u> |
| <u>At December 31, 2005</u> | | | | | |
| Total borrowings | <u>-</u> | <u>-</u> | <u>170</u> | <u>28,220</u> | <u>28,390</u> |

- (c) The maturity of non-current borrowings is as follows:

| | 2006 USD'000 | 2005 USD'000 |
|-------------------------------------|------------------------|-----------------|
| After one year and before two years | - | 170 |
| After five years | <u>36,856</u> | <u>28,220</u> |
| | <u>36,856</u> | <u>28,390</u> |

- (d) Non-current borrowings can be analysed as follows:

| | 2006 USD'000 | 2005 USD'000 |
|--|------------------------|-----------------|
| - After one year and before five years | | |
| Loans from related company | <u>-</u> | <u>170</u> |
| - After five years | | |
| Government of Sierra Leone loan | <u>36,856</u> | <u>28,220</u> |
| | <u>36,856</u> | <u>28,390</u> |

- (e) The effective interest rates at the balance sheet date were as follows:

| | 2006 | | 2005 | |
|---------------------------------|-------------|------------|-------------|------------|
| | Euro | USD | Euro | USD |
| | % | % | % | % |
| Government of Sierra Leone loan | 8 | - | 8 | - |
| Bank overdraft | 8 | 8 | - | - |
| Loans from related company | <u>-</u> | <u>-</u> | <u>-</u> | <u>15</u> |

- (f) The carrying amounts of the group's borrowings are denominated in the following currencies:

| | 2006 USD'000 | 2005 USD'000 |
|-----------|------------------------|-----------------|
| Euro | <u>36,859</u> | <u>28,220</u> |
| US Dollar | <u>41</u> | <u>170</u> |
| | <u>36,900</u> | <u>28,390</u> |

- (g) The carrying amounts of non-current borrowings are not materially different from their fair value.

| | | |
|--|----------------|---------|
| 16. PROVISION FOR LIABILITIES AND CHARGES | 2006 | 2005 |
| | USD'000 | USD'000 |
| At January 1, | 2,150 | - |
| Addition through business combination | - | 2,150 |
| At December 31, | 2,150 | 2,150 |

Rehabilitation

The mined area to be rehabilitated has remained the same since mining activity has just resumed. The expenditure and provisions include costs of labour, materials, and equipment required to rehabilitate disturbed areas, cost of reclamation, plant and infrastructure closure and subsequent environmental monitoring.

| | | |
|---|----------------|---------|
| 17. TRADE AND OTHER PAYABLES | 2006 | 2005 |
| | USD'000 | USD'000 |
| Trade payables | 6,770 | 3,615 |
| Amounts due to related parties | | 846 |
| Other payables and accrued expenses | 9,410 | 5,164 |
| Consolidation adjustment on disposal of 0.4% shares in subsidiary | 119 | - |
| | 16,464 | 9,625 |

Included in other payables and accrued expenses is an amount of USD 1,498,000 (2005: USD 497,000) relating to remaining shares to be transferred to the GOSL (see note 31).

The carrying amounts of trade and other payables approximate their fair value.

| | | |
|--|----------------|---------|
| 18. INCOME TAX | 2006 | 2005 |
| | USD'000 | USD'000 |
| (a) Current tax on the adjusted profit for the year/period at 0% - 30% | | - |
| Deferred income tax (Note 10) | 36,069 | 3,989 |
| Minimum turnover tax reinstated | 183 | - |
| Minimum turnover tax for the year/period | (61) | (5) |
| Credit to Income statement | 35,923 | 3,984 |

- (b) The tax on the Group's loss before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

| | | |
|--|-----------------|---------|
| | 2006 | 2005 |
| | USD'000 | USD'000 |
| Loss before tax | | |
| Tax calculated at 0% | - | - |
| Effect of different tax rates in different countries | (6,987) | (4,301) |
| Investment allowance | (1,988) | (8) |
| Income not subject to tax | (78) | (95) |
| Expenses not deductible for tax purposes | 2,258 | 509 |
| Utilisation of previously unrecognised tax losses | (29,925) | - |
| Minimum turnover tax for the year/period | 61 | 5 |
| Minimum turnover tax reinstated | (183) | - |
| Others | 919 | (94) |
| Tax credit | (35,923) | (3,984) |

- (c) Under the provisions of the Sierra Rutile Agreement (Ratification) Act, 2002, tax is charged at an amount not less than 3.5%, of the turnover or more than 37.5%, of the profits of the business in any financial year. A subsequent agreement was reached in June 2003 with the GOSL to reduce the rate to 0.5% of the turnover of the business through the year 2014 and revert to the 3.5% rate in the year 2015.

The Group, through its subsidiaries Sierra Rutile Limited and Sierra Mineral Holdings 1 Limited, is entitled to unutilised tax losses brought forward and capital allowances in respect of fixed asset acquisitions. to

| | | | |
|-----|--|----------------|---------|
| (d) | Current tax liabilities | 2006 | 2005 |
| | | USD'000 | USD'000 |
| | At January 1, 2006 / December 14, 2004 | | - |
| | Addition through business combination | - | 5 |
| | Charged to the Income statement (see note 18(a) above) | 146 | 5 |
| | Paid during the year | (71) | - |
| | At December 31, | 85 | 10 |
| 19. | LOSS BEFORE TAXATION | 2006 | 2005 |
| | | USD'000 | USD'000 |
| | Loss before taxation is arrived at after: | | |
| | Charging: | | |
| | Depreciation on property, plant and equipment (note 5) | | |
| | - owned assets | 5,829 | 1,600 |
| | Amortisation of intangible assets (note 6) | 37 | 6 |
| | Impairment loss: Investment (note 8) | 2,200 | - |
| | Auditors' remuneration | 80 | 54 |
| | Employee benefit expense (note 21) | 10,174 | 3,831 |
| 20. | EXPENSES BY NATURE | 2006 | 2005 |
| | | USD'000 | USD'000 |
| | Depreciation (note 5) | 5,829 | 1,600 |
| | Amortisation (note 6) | | 6 |
| | Employee benefit expense (note 21) | 10,174 | 3,831 |
| | Changes in inventories of finished goods and work in progress | 5,955 | 62 |
| | Transportation | 2,846 | 9 |
| | Impairment charges | 2,200 | - |
| | Other expenses | 24,658 | 13,622 |
| | Total cost of sales, selling and marketing and administrative expenses | 51,699 | 19,130 |
| 21. | EMPLOYEE BENEFIT EXPENSE | 2006 | 2005 |
| | | USD'000 | USD'000 |
| | Wages and salaries, including termination benefits | 6,416 | 926 |
| | Social security costs | 549 | 271 |
| | Share options granted to directors and employees | 3,209 | 2,634 |
| | | 10,174 | 3,831 |

| | | | |
|-----|--|-------------------------------|-------------------------------|
| 22. | OTHER INCOME | 2006 USD'000 | 2005 USD'000 |
| | Interest income | 2,542 | 1,721 |
| | Proceeds from disposal of old stock and scrap material | 227 | - |
| | Profit on disposal of 0.4% shares in subsidiary | 43 | - |
| | | <u>2,812</u> | <u>1,721</u> |
| 23. | EXCEPTIONAL ITEM | 2006 USD'000 | 2005 USD'000 |
| | Impairment of investment | <u>2,200</u> | <u>-</u> |
| 24. | FINANCE COSTS | 2006 USD'000 | 2005 USD'000 |
| | Interest expense: | | |
| | - Government of Sierra Leone loan | 2,649 | 1,314 |
| | - Bank overdrafts | 60 | - |
| | - Other loans not repayable by instalments | - | 78 |
| | Total borrowing costs | <u>2,709</u> | <u>1,392</u> |
| | Less: amounts included in the cost of qualifying assets | - | - |
| | | <u>2,709</u> | <u>78</u> |
| | Net foreign exchange transaction (gain)/losses (note 25) | <u>(1,015)</u> | <u>411</u> |
| | | <u>1,694</u> | <u>489</u> |
| 25. | NET FOREIGN EXCHANGE (GAIN)/LOSSES | 2006 USD'000 | 2005 USD'000 |
| | The exchange differences (credited)/charged to the income statement are included as follows: | | |
| | Finance costs (note 24) | <u>(1,015)</u> | <u>411</u> |
| 26. | EARNINGS/(LOSS) PER SHARE | 2006 USD | 2005 USD |
| (a) | <u>Basic earnings/(loss) per share</u> | | |
| | Profit/(loss) attributable to equity holders of the group (thousand) | <u>34,446</u> | <u>(13,577)</u> |
| | Weighted average number of ordinary shares in issue | <u>212,513,731</u> | <u>82,397,742</u> |
| | Basic earnings/(loss) per share | <u>0.16</u> | <u>(0.16)</u> |
| (b) | <u>Diluted earnings per share</u> | | |
| | Profit attributable to equity holders of the group used to determine diluted earnings per share (thousand) | <u>34,446</u> | <u>-</u> |

| | | |
|---|--------------------|---|
| <u>Number of shares</u> | | |
| Weighted average number of ordinary shares in issue | 212,513,731 | - |
| Adjustments for share options | <u>3,264,985</u> | - |
| Weighted average number of ordinary shares for diluted earnings per share | <u>215,778,716</u> | - |
| Diluted earnings per share | <u>0.15</u> | - |

- (c) As stated in note 13(b), at period ended December 31, 2005, 5,979,970 share options granted to directors and selected employees were to vest after period end and potentially affecting the earnings per share (EPS). Because there would have been a reduction in loss per share resulting from the assumption that the share options were exercised, the latter were anti dilutive and were ignored in the computation of diluted EPS. As there were no other instruments that could have a potential dilutive effect, no diluted EPS was disclosed.

27. BUSINESS COMBINATIONS

(a) Acquisition

- (i) On May 16, 2005 the Company acquired 100% of the share capital of Global Aluminium Ltd and Titanium Fields Resources Ltd, companies engaged in investment holding. The acquired businesses contributed revenues of USD 337,000 and net profit of USD 9,242,000 to the Group for the period from May 16, 2005 to December 31, 2005. If the acquisition had occurred on January 1, 2005, Group revenue would have been USD 579,000, and loss for the period would have been USD 16,021,000.

Details of net assets acquired and goodwill are as follows:

| | <u>USD'000</u> |
|-----------------------------------|-----------------|
| Purchase consideration: | |
| - Fair value of shares issued | <u>71,444</u> |
| Total purchase consideration | 71,444 |
| Fair value of net assets acquired | <u>(58,568)</u> |
| Goodwill (Note 6) | <u>12,876</u> |

The goodwill is attributable to prospects of high profitability of the acquired businesses significant synergies expected to arise after the Company's acquisition of subsidiaries.

The book value of the assets and liabilities are assumed to be not materially different from their fair values.

| | <u>Fair value</u> |
|--|-------------------|
| | <u>USD'000</u> |
| (ii) The assets and liabilities arising from the acquisition are as follows: | |
| Fair value of net assets acquired ** | 58,568 |
| Add: Goodwill | <u>12,876</u> |
| | 71,444 |
| Less: | |
| Purchase consideration settled by shares issued | (71,444) |
| Cash and cash equivalents in subsidiaries acquired | <u>(32,553)</u> |
| Net cash inflow on acquisition | <u>(32,553)</u> |

** The components of the net assets acquired (assets and liabilities) are not disclosed as it is impracticable to do so.

(b) **Disposal**

Pursuant to the First Amendment Agreement dated February 4, 2004, entered by and between the Government of the Republic of Sierra Leone (GOSL) and Sierra Rutile Limited (SRL) regarding PAYE taxes due from SRL (See note 31), on November 14, 2006, SRL Acquisition No.3 Limited transferred 403 shares it held in Sierra Rutile Holdings Limited (SRHL) to GOSL, representing 0.4% ownership interest in SRHL, a subsidiary incorporated in British Virgin Islands. SRHL acts as an intermediate holding company.

The details of assets acquired and liabilities disposed and the disposal consideration are as follows:

| | <u>Notes</u> | <u>2006</u> <u>USD'000</u> |
|------------------------|--------------|-------------------------------|
| Bank balances and cash | 28(c) | 1 |
| Accounts receivables | | 828 |
| Accounts payables | | (710) |
| Net assets | | 119 |
| Profit on disposal | | 43 |
| Total consideration | | <u>162</u> |

28. **NOTES TO THE CASH FLOW STATEMENT**

(a) **Cash used in operations**

| | <u>2006</u> <u>USD'000</u> | <u>2005</u> <u>USD'000</u> |
|---|-------------------------------|-------------------------------|
| Loss for the year/period | | |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 5,829 | 1,600 |
| Amortisation of intangible assets | 37 | 6 |
| Share option scheme - Employee | 3,209 | 2,634 |
| Share option scheme - Professional service | - | 824 |
| Interest income | (2,542) | (1,721) |
| Interest expense | 2,709 | 78 |
| Exchange loss/(gain) on borrowings | 3,432 | |
| Profit on disposal of 0.4% shares in subsidiary | (43) | - |
| Loan amount written back | (1,016) | - |
| Impairment of investment | 2,200 | - |
| Non-current receivable written off | 641 | - |
| | <u>12,979</u> | <u>(16,350)</u> |
| Changes in working capital (excluding the effects of acquisition of subsidiaries) | | |
| -inventories | (7,899) | (96) |
| -trade and other receivables | (5,498) | (13,476) |
| -trade and other payables | 7,726 | 2,948 |
| Cash generated from/(absorbed in) operations | <u>7,308</u> | <u>(26,974)</u> |

(b) **Non cash transactions**

The principal non cash transaction is the issue of 3,389,985 shares to directors and selected employees pursuant to share option plan described in note 13(b).

| (c) Cash and cash equivalents | <u>2006</u> | <u>2005</u> |
|---|----------------|----------------|
| | <u>USD'000</u> | <u>USD'000</u> |
| Cash in hand and at bank | 5,701 | 17,286 |
| Short term bank deposits | 46,693 | 62,396 |
| Bank overdrafts | (44) | - |
| Consolidation adjustment on disposal of 0.4% shares in subsidiary | (1) | - |
| Cash and cash equivalents | <u>52,349</u> | <u>79,682</u> |

29. **CAPITAL COMMITMENTS**

| | <u>2006</u> | <u>2005</u> |
|--|----------------|----------------|
| | <u>USD'000</u> | <u>USD'000</u> |
| Property, plant and equipment acquisition contracted for at the balance sheet date but not yet incurred: | <u>37,720</u> | <u>12,739</u> |

Sierra Rutile Limited has entered into agreement with PW Mining for mine development for an amount of USD 10,000,000. It also has capital commitments in respect of :

- (i) the commissioning of Dredge D2 which is well advanced and on track and for which USD 8,000,000 has been committed;
- (ii) the acquisition of 4 new units of heavy fuel oil (HFO) power generators of 6.866 MW each for an amount of USD 18,920,000; and
- (iii) the acquisition of Dredge D3 for an amount of USD 800,000.

30. **RELATED PARTY TRANSACTIONS**

| (a) Transactions and balances | <u>Interest</u> | <u>Loans or advances</u> | <u>Amount owed</u> | <u>Total</u> |
|--------------------------------------|-----------------|--------------------------|--------------------|----------------|
| | <u>USD'000</u> | <u>to/(from)</u> | <u>to related</u> | <u>USD'000</u> |
| | | <u>USD'000</u> | <u>parties</u> | |
| | | | <u>USD'000</u> | <u>USD'000</u> |
| (i) <u>2006</u> | | | | |
| Director: | | | | |
| Mr. Wayne Malouf* | - | - | (165) | (165) |
| Mr. Len Comerford** | - | - | - | - |

* Mr Wayne Malouf is a Director of the group and the USD 165,000 above refers to amount payable to him in respect of expenses he made on behalf of Sierra Rutile Limited (SRL), an operating subsidiary based in Sierra Leone.

**During the period ended December 31, 2005, Sierra Mineral Holdings 1 Limited, an operating subsidiary based in Sierra Leone, entered into a mine operating contract with PW Mining International Limited (PWMIL), an enterprise in which Mr Len Comerford is a director. Under the terms of the contract, a fixed rate per annum is payable to PWMIL if bauxite produced is according to specifications.

As stated in note 29, SRL has also entered into a material mine development contract with PWMIL during the same period. The contract covers a period of 5 years.

On May 1, 2006, Mr Len Comerford was appointed Chief Executive Officer of the TRG Group. Mr Comerford is not a shareholder of PWMIL and receives no direct benefit from either of these contracts.

| | <u>Interest</u> | <u>Loans or advances to/(from)</u> | <u>Amount owed to related parties</u> | <u>Total</u> |
|--|-----------------|------------------------------------|---------------------------------------|--------------|
| | USD'000 | USD'000 | USD'000 | USD'000 |
| (ii) 2005 | | | | |
| Subsidiary company Director: | | | | |
| Mr. John Sisay * | - | 39 | - | 39 |
| Mineral Holdings I Limited an enterprise in which Jean Raymond Boule has significant interest ** | (134) | (36) | (846) | (1,016) |
| Subsidiaries: *** | | | | |
| Titanium Fields Resources Ltd | 200 | - | - | 200 |
| Sierra Rutile Holdings Limited | 101 | - | - | 101 |
| Sierra Mineral Holdings I Limited | 243 | - | - | 243 |
| SRL Acquisition No.1 Limited | 200 | - | - | 200 |
| | <u>610</u> | <u>3</u> | <u>(846)</u> | <u>(233)</u> |

* Mr. John Sisay is a Director of SRL and the loan was advanced to him by SRL prior to May 16, 2005 and is included in receivables. The amount has been expensed as payroll costs during the year ended December 31, 2006.

** Included in the interest of USD 134,000 is an amount of USD 78,000 arising after May 16, 2005, the date of acquisition. Prior to acquisition, Mineral Holdings I Limited advanced a further sum of USD 36,000 to Sierra Mineral Holdings I Limited.

The amount of USD 1,016,000 was written back during the year ended December 31, 2006.

*** Amounts of interest disclosed as receivable from subsidiaries relate to the period prior to acquisition by the Holding Company on May 16, 2005.

(b) **Loans and advances**

Loan and advances are unsecured. No provisions have been made for doubtful debts in respect of amounts by related parties.

(c) **Capital commitments**

As announced on December 21, 2005, TRG entered into an agreement with Gondwana (Investments) S.A. to acquire the Rotifunk mineral sands prospect located in Sierra Leone for a consideration of USD 120,000. The acquisition was finalised and settled on February 2, 2006.

| (d) Key management personnel compensation | <u>2006</u> | <u>2005</u> |
|--|----------------|----------------|
| | <u>USD'000</u> | <u>USD'000</u> |
| Directors' fee | 1,502 | 365 |
| Salaries and short-term employee benefits | 2,415 | 2,366 |
| Post employment benefits | 158 | 174 |
| Other long term benefits | - | 85 |
| Termination benefits | 16 | 3 |
| Share options - based payment | 1,723 | 1,168 |
| | <u>5,814</u> | <u>4,161</u> |

31. **AGREEMENT WITH THE GOVERNMENT OF THE REPUBLIC OF SIERRA LEONE.**

According to the First Amendment Agreement dated February 4, 2004, entered by and between the Government of the Republic of Sierra Leone and Sierra Rutile Limited, the Government assigned to SRL A 3 all its right, title and interest in, to, and under the future PAYE taxes due from Sierra Rutile Limited to the Government in an amount not exceeding USD 37 m. In consideration for the foregoing assignment, SRL A 3 agreed to transfer up to a 30% equity interest in Sierra Rutile Holdings Ltd to the Government, within 60 days of the end of the calendar year commencing on the "Refurbishment Start Date" (i.e. April 1, 2005), equal in value to the PAYE amounts accrued during such calendar year. As at December 31, 2006, only 403 shares (2005: nil) were transferred and PAYE accrued for the year in Sierra Rutile Limited amounted to USD 1,163,000 (2005: USD 497,000).

32. **EVENTS AFTER BALANCE SHEET DATE**

Subsequent to the balance sheet date the group has started work on Dredge D3.

33. **REPORTING CURRENCY**

The financial statements are presented in thousands of United States Dollar (USD).

34. **MAJOR SHAREHOLDERS**

Substantial individual shareholders and corporate investors own up to 65.8% of the company's shares. The remaining 34.2% of the shares is widely held.

ENDS