TITANIUM RESOURCES

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ANNUAL REPORT

TRG WILL RELEASE THE VALUE OF THE MINERAL RESERVES FROM ITS DEPOSITS IN SIERRA LEONE AND ENHANCE EXPANSION OPPORTUNITIES FOR THE BENEFIT OF SHAREHOLDERS.

OUR COMMITMENT TO IDENTIFYING AND MANAGING RISK AND MAINTAINING AN EFFICIENT OPERATING SYSTEM ALIGNS THE NEEDS OF OUR SHAREHOLDERS, EMPLOYEES AND LOCAL COMMUNITIES TO THE MUTUAL LONG TERM BENEFIT OF ALL.

2005 AT A GLANCE

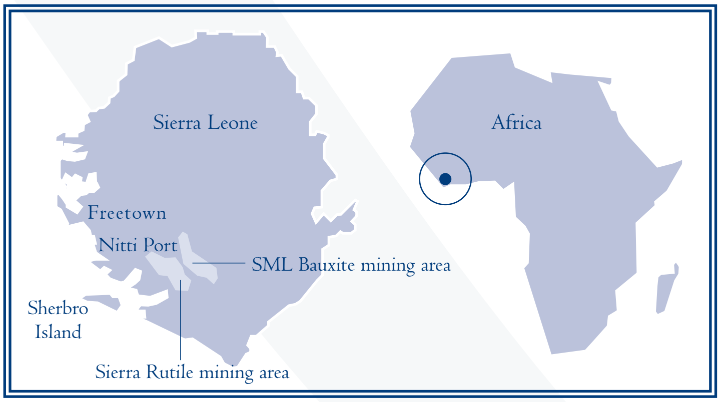
HIGHLIGHTS

- Qualified for the second and last tranche of €24.75 million EU loan
- Senior management team expanded to underpin future growth plan
- Market outlook robust
- Attributable losses for the period of US$13.7 million reflects lack of production in 2005, as expected
- Cash reserves at year end of US$79.7 million

- Subsequent to the year end both the Sierra Rutile mine and SML Bauxite mine were brought back into production, on time and on budget with first shipments in May and February respectively

KEY FACTS

- TRG is the largest private employer in Sierra Leone
- Market cap at year end of £117 million
- Total assets at year end of US$221.55 million



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS

2005 was a pivotal year for TRG, with the successful completion of the Group's transformation into a significant, publicly listed, producer of industrial minerals with head room for growth. The Group's listing on AIM in August 2005 and the associated fund raising provided TRG with the financial strength to complete the restart and begin the expansion of the Group's mines in Sierra Leone, West Africa.

The financial results for the period are in line with the Board's expectations at the time of the IPO. Sales of US$337,000 derive from stock pile reduction principally. The attributable losses for the period of US$13.7 million reflect the lack of production during the period from either of the Company's mines in 2005, as expected.

AIM admission and financing

Favourable market conditions, and the desire for external capital, led to the decision in 2005 to list TRG's shares on AIM. This marked a major milestone for TRG after its years as a private company.

TRG successfully raised US$74 million (£41 million) through an institutional placing of over 87 million shares at 47 pence per share. TRG's shares were admitted to AIM for trading on 25 August. The IPO has dramatically increased the Group's financial resources, expanded its shareholder base and raised its profile in the industrial minerals industry. With the funds raised from the IPO, and a subsequent private placement of US$17.5 million (£10 million) with London institutions in October 2005, the Group is well positioned to continue with its ongoing expansion projects.

Group strategy

Following the successful restart of the rutile and bauxite mines, the Group intends to undertake exploration on both of its properties to upgrade existing resources to reserves and identify new reserves while also evaluating potential opportunities for acquisition of further mineral properties. As part of the Group's strategy it acquired the Rotifunk mineral sands deposit in January 2006 for further exploration and evaluation.

In the near term, the Group will be engaged in detailed engineering and geological work in an effort to expand rutile production through the reprocessing of tailings or dry mining of outlying ore bodies that do not fall within the current dredge path. The Group is also examining opportunities to increase bauxite production from the current 1.2 million tonnes per annum.

The Management

We announced on 2 May the appointment of Len Comerford as Chief Executive, Alex MacDonald as Chief Operating Officer and Sahr Wonday as Deputy Chief Operating Officer of Sierra Rutile Limited. I would like to take this opportunity to thank Max McGarvie for his hard work and commitment to the Group. Max McGarvie remains on the Board as a Non Executive Director and Special Advisor to the CEO. The Group will continue to benefit from Max's extensive knowledge of mineral sands production and mining in West Africa.

Outlook

As we begin regular shipments from our operations, we note that sales agreements for all of the Group's pigment grade rutile are in place while demand for welding grade rutile is strong. In the year ahead we expect demand for titanium dioxide to increase in line with forecast global GDP growth of approximately 3% and interest from buyers to remain strong.

All the Group's bauxite production is covered by long term off take agreements with two major aluminium producers and we continue to evaluate ways to increase the Group's bauxite production to take advantage of the continuing strong demand.

The Group remains committed to playing an active role in the long term, sustainable development of Sierra Leone and I believe that the example we have set will encourage others to invest in what is an increasingly stable, secure and prosperous nation.

Sincerely,

Walter Kansteiner NON EXECUTIVE CHAIRMAN

TiO_2 RUTILE

Full details of the Group's operations were published in the prospectus which accompanied the Placing and Admission of the Group to AIM in August 2005. In the remaining four months of the 2005 financial year since listing and the subsequent trading period of the current year significant progress has been made across the operations in Sierra Leone.

RESTART OF SRL RUTILE MINE

In early 2005, TRG commenced refurbishment of Dredge D1 and associated infrastructure at the Sierra Rutile mine. The refurbishment project was successfully completed in March 2006 with the start of commercial scale production. The first shipment of 7,000 tonnes was made in May 2006. Dredge D1 will produce approximately 100,000 tonnes per annum of natural rutile, representing approximately 14.5% of world rutile production. Construction work on Dredge D2 commenced in May 2006 and when completed in the third quarter of 2007 will double Sierra Rutile's annual production to 200,000 tonnes per annum, representing approximately 23.5% of world rutile production. The first shipment of rutile was made in May 2006.

Al, Fe, O, OH BAUXITE

RESTART OF SML BAUXITE MINE

In January 2006, refurbishment of the SML Bauxite mine was completed and commercial scale production commenced at the rate of 1.2 million tonnes per annum of bauxite. The bauxite restart project was completed on schedule and on budget. The first shipment of 38,500 tonnes of bauxite was made in February 2006. TRG's bauxite production for the initial three years is being sold forward under long term off-take contracts with Alcoa World Alumina LLC and Glencore AG. The Group's bauxite project is operated by P.W. Mining International Limited ("PW") under the terms of an agreement whereby PW is responsible for the mining and processing of the ore and maintenance of the infrastructure facilities.

NON-FINANCIAL PERFORMANCE

Our policy, as set out at the time of our IPO, remains to conduct our business in a responsible manner designed to protect and develop our employees, the environment, and the surrounding communities. We also aim to record zero accidents causing harm to any individual at our operations.

While the focus of the Group's work this year has been on re-starting operations, significant progress has been made in establishing key internal structures through which the Group can continue to improve its performance in this area. An Environment, Health and Safety (EHS) Department has been established and the not-for-profit Sierra Rutile Foundation through which the Group will deliver social programmes and contribute to Sierra Leone's transition to sustainable development has been formed. The Group also continues to build its capacity through the recruitment of additional, expert staff to further strengthen the EHS Department.

Under the operating agreement for the Sierra Minerals bauxite mine, the contractor, PW is responsible for ensuring compliance with all environmental, health and safety regulations. The Board has been advised as to their full compliance.

HEALTH AND SAFETY

The lost time injury frequency rate for SRL of 6.46 during 2005 compares favourably with the results of operations in countries with far more developed mining safety environments. Nevertheless, over the year ahead the Group will implement an improved safety management system at the SRL mine to ensure that safety standards not only comply with all applicable laws and regulations but also meet or exceed industry standards of best practice.

The clinic at the Sierra Rutile Mine Site has been refurbished. SRL and SML provide healthcare facilities to the Groups employees and their immediate families as well as local communities on a case by case basis.

ENVIRONMENT

At SRL the Group is preparing a Biodiversity Conservation and Development Plan in collaboration with the Government of Sierra Leone, the National Commission for Environment and Forestry, the Local Councils and the Chiefdom Authorities.

SRL will also develop and implement a site remediation plan to address the issues highlighted in the environmental audit of 2001.

Additionally, SRL will implement a comprehensive environmental monitoring programme as defined in the Environmental and Social Action Plan of 2001. During 2006, SRL will initiate the development of a comprehensive tailings management and water reticulation scheme that when fully implemented will address the substantive issues relating to efficient water use and cost effective and environmentally safe tailings management in the land plants.

COMMUNITY

Together with the competent authorities, local communities and other interested parties, the Group will undertake a comprehensive review of past land rehabilitation that will take into account not only the environmental quality of the landscape but also the livelihoods of the local communities near the Group's mine sites.

SRL will update the Resettlement Action Plan for Foinda Village including a revised schedule and cost for implementation. This review will be consistent with SRL's current long range mine plan.

SRL will prepare a Livelihood Assessment and Income Restoration Plan for Foinda, Madina and Gbangbama villages that will examine existing agro-economic models and develop alternate models that allow diversification of income resources while increasing household food security through new agricultural production systems aimed at intensifying land use and improving yields.

DIRECTORS AND ADVISERS

DIRECTORS

Walter Kansteiner III NON-EXECUTIVE CHAIRMAN

Mr. Kansteiner has over twenty years' experience with African and emerging market business issues. A founding principal of The Scowcroft Group, he has advised corporations on a wide range of mergers, acquisitions and privatisations throughout Africa and has been involved with transactions in telecommunications, forestry, mining, financial services, healthcare and aviation services. Previously, Mr. Kansteiner served three years as Assistant Secretary of State for African Affairs. In this capacity, he was responsible for U.S. foreign policy in Africa. From 1980 to 1986, Mr. Kansteiner was executive vice president of a commodity trading and processing company, which specialised in tropical commodities (coffee, cocoa and sugar). In addition to his business experience in emerging markets, from 1989 to 1992, Mr. Kansteiner served in the U.S. government as the Director of African Affairs on the National Security Council staff. He also served as the Africa specialist on the Secretary of State's Policy Planning Staff, and with the Department of Defense as a member of the strategic minerals task force. He holds graduate degrees in international economics and ethics from American University and Virginia Theological Seminary, respectively. He is a member of the Council on Foreign Relations, chairs the Africa Policy Advisory Panel (a congressionally mandated advisory group) and serves on various boards in the U.S. and Africa.

Max McGarvie NON-EXECUTIVE DIRECTOR

Mr. McGarvie was Chief Executive of TRG until May 2006 and stood down following the successful restart of operations at the Group's rutile and bauxite mines. Mr McGarvie has over thirty years' experience in the minerals sands industry. He also has an intimate knowledge of Sierra Leone and SRL, having spent five years with the company as assistant production manager prior to rejoining the company in 1997. Prior to working for SRL, he was employed as a project leader by RGC Pty Ltd to undertake a due diligence study on the Sierra Rutile operation, which was 50% owned by RGC at the time. In addition to mineral sands, Mr. McGarvie has a proven record in process development and operational roles within the gold, petrochemical and scheelite industries from his employment with National Resources Exploration Ltd (later Gullewa Gold NL) and Saudi Petrochemical Co (SADAF). From 1972 to 1986, he worked for Allied Eneabba Ltd, where he played a pivotal role in the development of the major mineral sands deposit at Eneabba, Western Australia including roles as mine manager and process development manager. Mr. McGarvie has a B.A. (Honours) from Deakin University and a Master of Business and Technology from the University of New South Wales.

Sir Sam Jonah KBE NON-EXECUTIVE DIRECTOR

Sir Sam Jonah is president of AngloGold Ashanti Limited, a NYSE listed company which is one of the world's largest gold companies and the largest African based gold producer. He was appointed to the position of chief executive officer of Ashanti Goldfields Company Limited in 1986 and oversaw its growth and listing as the first operating sub-Saharan African company on the NYSE. He became president of AngloGold Ashanti in May 2004, when Ashanti was acquired by AngloGold Limited. Sir Sam Jonah has been decorated with many awards and honours (including an honorary Doctor of Science) and in 2003, was conferred with an Honorary Knighthood. He is a member of numerous advisory committees including President Thabo Mbeki's International Investment Advisory Council of South Africa, President Kufuor's Ghana Investors' Advisory Council, and the United Nations Secretary General's Global Compact Advisory Council. He is currently a director on a number of public and private company boards including AngloGold Ashanti Limited, Anglo American Corporation of South Africa, Anglo American Platinum Corporation Ltd. (Amplats), Transnet Ltd., Copper Resources Corporation and Equator Exploration Limited where he is executive chairman.

Rod Baker B.SC., M.SC. NON-EXECUTIVE DIRECTOR

Mr. Baker has worked for thirty five years as a mineral exploration geologist in many countries in five continents. He started his professional career in North Sea gas as a geologist before joining the Anglo American Corporation to work in southern Africa. He then joined a South African consulting group and carried out work for clients such as Rio Tinto, Selection Trust, U.S. Steel, Falconbridge and Billiton on a number of commodities. In 1981, he became an independent consultant working largely for the United Nations and other clients in Africa, India and the Americas. For the last sixteen years he has been engaged mostly in pursuit of his own diamond and gold interests in South America. He has a long familiarity with Sierra Leone and West Africa. He was also a founding director of Diamond Field Resources Inc. Mr. Baker received a B.Sc. in geology from Nottingham University and an M.Sc. in mineral exploration from Leicester University.

Len Comerford CHIEF EXECUTIVE

Mr. Comerford was appointed after the year end in April 2006 following Max McGarvie's move to a non-executive position. Mr. Comerford is an engineering graduate of University College Cork who has been working in the mining, engineering, financing and development sectors in Africa since 1986.

Mr. Comerford has worked in a number of senior roles for the P.W. Group, a specialist African construction and mining contractor based in Ireland for 13 years. His experience includes planning and implementing mining and quarrying operations, working on feasibility and planning for mines and contract and financing negotiations with companies including AngloGold Ashanti, Resolute Mining, Goldfields Ghana, Placerdome Tanzania, Goldenstar Resources, Redback (Chirano) Mining, Satellite Goldfields, Sierra Mineral Holdings, HSBC and BNP Paribas.

Mr. Comerford is currently a Director of P.W. Ghana Ltd., P.W. Mining Limited and P.W. Mining International Limited.

Raju Jaddoo CHIEF FINANCIAL OFFICER

Over the last fifteen years Mr. Jaddoo has gained extensive experience undertaking assignments in developing countries across Africa and Eastern Europe involving balancing national and various macro-economic interests. He has also been involved in several local and international corporate finance transactions. Mr. Jaddoo has worked on a number of World Bank funded assignments by providing a broad range of economic, financial, organisational and socio-economic planning services to government and private industry. He has advised and assisted international industry experts in formulating innovative strategies in the provision of public services by the private sector (public private partnerships, executive agencies, contracting out, output based contracts) in diverse fields such as transportation and logistics, power, telecommunications, ports and airports, water and sanitation and environmental solid waste management. Mr. Jaddoo is a Fellow of the Institute of Chartered Accountants in England and Wales

Wayne Malouf EXECUTIVE VICE-CHAIRMAN

From 2002 to 2004, Mr. Malouf was the chief executive officer of SRL. In this capacity, he oversaw the company's negotiations for financing arrangements with the European Commission, the Government of Sierra Leone and OPIC. He founded a law firm focusing on commercial transactions and litigation. He has extensive experience in international business transactions and has negotiated and concluded commercial transactions involving mining and other industries in the United States, Canada, Brazil, Great Britain, France, Denmark, Switzerland, Belgium, Luxembourg, Finland, Russia, The Democratic Republic of Congo, South Africa, Angola, Namibia, Zambia, Mauritius, Madagascar, Sierra Leone, Australia, and China. Previously, he was an attorney at Hutchinson, Boyle Brooks & Fisher in Dallas, Texas. Mr. Malouf has a B.A. and J.D. from St. Mary's University in Texas and has an M.A. in social sciences with a concentration in international relations and economics from the University of Chicago.

DIRECTORS AND ADVISERS

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Audrey Irene Hoe-Richardson
investors@titaniumresources.com

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Channel Islands

Company number
629748

DIRECTORS' REPORT

FOR THE PERIOD ENDED DECEMBER 31, 2005

The Directors submit their report and the audited financial statements of the Group for the period ended 31 December 2005.

RESULTS AND DIVIDEND

The results of the Group are shown on page 18. Sales of US$337,000 represent sales from stockpiles before commercial production started.

The Directors have not paid a dividend during the year (2005: $Nil).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Group's principal activity is exploring for, producing and marketing industrial minerals, primarily rutile and bauxite, in Sierra Leone, West Africa. The Group owns the Sierra Rutile mine and the SML Bauxite mine in Sierra Leone. Both mines have been refurbished and are being expanded. The SML mine restarted commercial operations in January 2006 and the Sierra Rutile mine restarted commercial operations in the first quarter of 2006.

The Group has completed the refurbishment of the Sierra Rutile mine and plans to further expand production by commissioning a second dredge in 2007. The Group is also evaluating options for the expansion of operations at both the SML Bauxite and Sierra Rutile mines.

On 25 August 2005 the common shares of the Company were admitted to AIM.
The Company issued 87,151,553 new common shares for total proceeds of £40,961,229.

On 19 October 2005 the Company issued 20,000,000 new common shares for total gross proceeds of £10,000,000.

HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

The Group has agreed to take on the same performance obligations as members of the International Council on Mining & Metals and seeks continual improvement in non-financial performance so as to enhance shareholder value.

EMPLOYEE POLICIES AND INVOLVEMENT

Our operations aim to record zero accidents causing harm to any individual through the following standards:

- We provide adequate control of health and safety risks and regular monitoring to assess the appropriateness of these risks over time
- We provide appropriate training, equipment and maintenance to prevent accidents
- We consult with employees at all levels to ensure that their instruction, supervision and levels of competency are appropriate to their position
- We review and report on health and safety at our operations as part of internal management practice and external communications
- The SRL mine site has a fully staffed and equipped clinic which is funded by the company and provides free healthcare for employees and their dependents

DIRECTORS' REPORT

FOR THE PERIOD ENDED DECEMBER 31, 2005

CORPORATE GOVERNANCE

The Directors intend, where practicable for a company of Titanium Resources' size and nature, to comply with the Combined Code. The Directors have established audit and remuneration committees. The Company has departed from certain aspects of the guidelines set out in the Combined Code and the Corporate Governance Guidelines for AIM companies published by the QCA in that the Non-Executive Directors have been granted options. However, the options are not subject to performance criteria. In the opinion of the Directors, these options are not considered to be material enough to either the Company or each Non-Executive Director concerned to impair the independence of the Company's Non-Executive Directors.

At 31 December 2005 the Board comprised three Executive Directors and three Non-Executive Directors. The Board meets monthly throughout the year and as issues arise which require Board attention.

The Company's independent directors are Rod Baker, Sir Sam Jonah and Walter Kansteiner.

REMUNERATION COMMITTEE

The remuneration committee chaired by Mr. Baker and comprising Mr. Kansteiner, both Non-Executive Directors, determines the terms and conditions of service, including the remuneration and grant of Options to Directors (both Executive and Non-Executive) and others under the Share Option Scheme and any other future share option schemes and arrangements adopted by the Company. The committee meets at least twice a year.

AUDIT COMMITTEE

The audit committee chaired by Mr. Kansteiner and consisting of Sir Sam Jonah and Mr. Baker, both Non-Executive Directors, has primary responsibility for monitoring the quality of internal control, for ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounting and internal controls. The audit committee meets at least three times a year.

The Company has adopted a code for Directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees.

DIRECTORS AND THEIR INTERESTS

The names of the Directors who held office during the year and after the year end are listed below.

Mr. Edmond Van de Kelft (resigned 16 February 2005)
Mr. Walter Kansteiner (appointed 16 February 2005)
Mr. Wayne Malouf (appointed 16 February 2005)
Mr. Max McGarvie (appointed 16 February 2005)
Mr. Peter Walker (resigned 19 July 2005)
Mr. Raju Jaddoo (appointed 19 July 2005)
Sir. Samuel E Jonah (appointed 4 August 2005)
Mr. Rod Baker (appointed 4 August 2005)

None of the Directors held shares as at 31 December 2005.

Directors hold the following options to subscribe for common shares:

	Exercise Price	Date of grant	Date of expiry	Number of shares
Mr Walter Kansteiner	47p	15 August 2005	15 August 2010	399,999
Mr Wayne Malouf	47p	15 August 2005	15 August 2010	1,500,000
Mr Max McGarvie	47p	15 August 2005	15 August 2010	649,998
Mr Raju Jaddoo	47p	15 August 2005	15 August 2010	300,000
Sir Samuel E Jonah	47p	15 August 2005	15 August 2010	174,999
Mr Rod Baker	47p	15 August 2005	15 August 2010	174,999

SHARE CAPITAL

Details set out in the notes to financial statements.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following had interest in 3% or more of the voting capital of the Company as at 31 December 2005:

Holder	No. of shares	%
Jean-Raymond Boulle	90,320,332	43.5
Mackenzie Financial Corporation	17,647,059	8.5
Ingalls & Snyder LLC	15,000,000	7.2
Third Point Offshore Fund Ltd.	13,647,059	6.6

GOING CONCERN

The Board, after making suitable enquiries, is satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The AGM of the company will be held at 9:00am (British Summer Time) on Thursday 22 June 2005 at the Farmers' and Fletchers' Hall, 3 Cloth Street, EC1A 7LD, London.

The notice convening the meeting is sent to shareholders with this report. Resolutions relating to the meeting are set out in the Notice of Meeting.

PROXY VOTING

Proxy cards will be distributed to shareholders with the Notice of the AGM.

DIRECTORS' REPORT

FOR THE PERIOD ENDED DECEMBER 31, 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required to prepare financial statements that give a true and fair view of the state of affairs of the Company at the end of its financial year and of the profit or loss of the Company for the year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the provisions in the International Accounting Standards and International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

A resolution for the re-appointment of BDO De Chazal Du Mee as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Mr Raju Jaddoo DIRECTOR
24 May 2006

REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the financial statements of Titanium Resources Group Ltd set out on pages 18 to 41 which have been prepared on the basis of the accounting policies set out on pages 22 to 27.

This report is made solely to the company's members as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Our audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have no relationship with, or any interests in the group other than in our capacity as auditors, tax and business advisers and other than dealings with the group in the ordinary course of business.

OPINION

We have obtained all such information and explanations which we considered necessary.

In our opinion:

a. proper accounting records have been kept by the group as far as it appears from our examination of those records;

b. the financial statements give a true and fair view of the state of affairs of the group as at December 31, 2005 and of the result and cash flows for the period then ended, and have been prepared in accordance with International Financial Reporting Standards.

BDO De Chazal Du Mee

CHARTERED ACCOUNTANTS

Port Louis, Mauritius.

24 May 2006

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2005

	Notes	2005 USD'000
ASSETS		
Non-current assets		
Property, plant and equipment	5	61,279
Intangible assets	6	12,985
Non-current receivables	8	1,367
Deferred tax assets	9(a)	50,304
		125,935
Current assets		
Inventories	10	7,155
Trade and other receivables	11	8,777
Cash and cash equivalents	25(c)	79,682
		95,614
Total assets		221,549
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	12	194,951
Revenue deficit		(13,577)
Equity holders' interest		181,374
LIABILITIES		
Non-current liabilities		
Borrowings	13	28,390
Provisions for liabilities and charges	14	2,150
		30,540
Current liabilities		
Trade and other payables	15	9,625
Current tax liabilities	16(d)	10
		9,635
Total liabilities		40,175
Total equity and liabilities		221,549

The notes on pages 22 to 41 form an integral part of these financial statements.

Auditors' report on page 17.

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD DECEMBER 14, 2004 TO DECEMBER 31, 2005

	Notes	2005 USD'000
Continuing operations		
Sales	2(o)	337
Cost of sales	18	(98)
Gross profit		239
Other income	20	1,721
Operating expense	18	(80)
Administrative and marketing expenses	18	(14,828)
Other expenses	18	(4,124)
Operating loss		(17,072)
Finance costs	21	(489)
Loss before taxation	17	(17,561)
Income tax expense	16(a)	3,984
Loss for the period from continuing operations		(13,577)
Loss attributable to equity holders of the Group		(13,577)
Loss per share (USD)		
– basic	23(a)	(0.16)

The notes on pages 22 to 41 form an integral part of these financial statements.

Auditors' report on page 17.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD DECEMBER 14, 2004 TO DECEMBER 31, 2005

	Share capital USD'000	Revenue deficit USD'000	Total USD'000
At May 16, 2005	–	–	–
Issue of share capital	194,951	–	**194,951**
Loss for the period	–	(13,577)	**(13,577)**
At December 31, 2005	194,951	(13,577)	**181,374**

The notes on pages 22 to 41 form an integral part of these financial statements.

Auditors' report on page 17.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD DECEMBER 14, 2004 TO DECEMBER 31, 2005

	Notes	2005 USD'000
Operating activities		
Cash absorbed in operations	25(a)	(26,974)
Interest received		1,277
Net cash used in operating activities		(25,697)
Investing activities		
Acquisition of subsidiaries net of cash acquired	24	32,553
Purchase of property, plant and equipment		(23,604)
Loans and advance granted		(640)
Net cash used in investing activities		8,309
Financing activities		
Issue of ordinary shares		91,493
Proceeds from long term borrowings		5,577
Net cash from financing activities		97,070
Net increase in cash and cash equivalents		79,682
Movement in cash and cash equivalents		
At December 14, 2004		–
Increase		79,682
At December 31, 2005	25(c)	79,682

The notes on pages 22 to 41 form an integral part of these financial statements.
Auditors' report on page 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD DECEMBER 14, 2004 TO DECEMBER 31, 2005

1. GENERAL INFORMATION

Titanium Resources Group Ltd is a 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention.

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 period are included in the consolidated profit and loss account 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. The consolidated income statement therefore includes trading results for the six and a half months to December 31 2005.

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 are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 cash flow 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
Financial assets and financial liabilities are recognised on the Group's balance sheet when the group has become a party to the contractual provisions of the instrument.

The group's accounting policies in respect of the main financial instruments are set out below.

(i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(ii) 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.

(iii) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 recovery basis as conditions warrant.
- Dividend income – when the shareholder's right to receive payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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; and
(d) cash flow interest-rate 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 the operating subsidiaries are not fully operational. 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.

3. FINANCIAL RISK FACTORS (CONTINUED)

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

	Infrastructure USD'000	Plant, machinery and equipment USD'000	Marine fleet USD'000	Mine development USD'000	Capital work in progress USD'000	Other expenses USD'000	Rehabilitation USD'000	Total USD'000
(a) Cost								
At December 14, 2004	–	–	–	–	–	–	–	–
Acquisition through business combination	14,057	105,944	–	27,660	26,920	3,912	–	178,493
Addition	159	1,059	324	103	6,772	–	15,187	23,604
Write off	–	(105)	–	–	–	(3,912)	–	(4,017)
At December 31, 2005	**14,216**	**106,898**	**324**	**27,763**	**33,692**	**–**	**15,187**	**198,080**
Depreciation								
At December 14, 2004	–	–	–	–	–	–	–	–
Acquisition through business combination	13,589	96,984	–	24,565	168	–	–	135,306
Charge for the period	79	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	**548**	**8,657**	**324**	**3,039**	**33,524**	**–**	**15,187**	**61,279**

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) During the period under review, 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.

(c) Expenditure capitalised in respect of the refurbishment of the mines amounted to USD 15m. As at December 31, 2005, 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.

(d) Borrowings costs of USD 1.314m (including its related exchange difference) arising on the refurbishment of the mines were capitalised during the period and are included in 'Additions'. A capitalisation rate of 8% was used, representing the borrowing cost of the loan used to finance the refurbishment activity.

(e) Depreciation charge of USD 1,600,000 has been charged in other operating expenses.

6. INTANGIBLE ASSETS

	Goodwill USD'000	Computer software costs USD'000	**Total USD'000**
(a) **Cost**			
At December 14, 2004	–	–	–
Addition during the period	12,876	115	**12,991**
At December 31, 2005	12,876	115	**12,991**
Amortisation			
At December 14, 2004	–	–	–
Charge for the period	–	6	**6**
At December 31, 2005	–	6	**6**
Net book value			
At December 31, 2005	12,876	109	**12,985**

(b) Amortisation charge of USD 6,000 has been charged in other operating expenses.

(c) 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:

Name	Class of shares held		Proportion of ownership interest		Proportion of voting power held		Country of incorporation	Main business
2005		Year end	Direct	Indirect	Direct	Indirect		
Global Aluminium Limited	Ordinary	31/12/05	100%	–	100%	–	BVI	Intermediate holding company
Bauxite Marketing Ltd	Ordinary	31/12/05	–	100%	–	100%	BVI	Marketing of Bauxite
Sierra Mineral Holdings 1 Limited	Ordinary	31/12/05	–	100%	–	100%	BVI	Extraction of Bauxite
Titanium Fields Resources Ltd	Ordinary	31/12/05	100%	–	100%	–	BVI	Intermediate holding company
SRL Acquisition No. 1 Limited	1 A share	31/12/05	–	100%	–	100%	BVI	Intermediate holding company
SRL Acquisition No. 3 Limited	Ordinary	31/12/05	–	100%	–	100%	BVI	Intermediate holding company
The Natural Rutile Company Limited	Ordinary	31/12/05	–	100%	–	100%	BVI	Marketing of Rutile
Sierra Rutile Holdings Limited	Ordinary	31/12/05	–	100%	–	100%	BVI	Intermediate holding company
Sierra Rutile Limited	Ordinary	31/12/05	–	100%	–	100%	Sierra Leone	Extraction, concentration and sale 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 preparation and filing of audited 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.

8. NON-CURRENT RECEIVABLES

	2005 USD'000
Loan to the Government of Sierra Leone (see Note (a) below)	**727**
Other non-current receivables	**640**
	1,367

(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.

9. 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:

	2005 USD'000
Deferred tax assets	**50,541**
Deferred tax liabilities	**(237)**
	50,304

At balance sheet date, the Group had unused tax losses of USD 158,214,000 available for offset against future profits. A deferred tax asset has been recognised in respect of the losses of USD 158,214,000.

(b) The movement on the deferred income tax account is as follows:

	2005 USD'000
At December 14, 2004	–
Acquisition through business combination	**46,315**
Income statement credit (Note 16(a))	**3,989**
At December 31, 2005	**50,304**

(c) The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same fiscal authority, is as follows:

9. DEFERRED INCOME TAX (CONTINUED)

(i) Deferred tax liabilities:

	Accelerated tax depreciation USD'000
At December 14, 2004	–
Acquisition of subsidiary	(99)
Charged to Income statement	(138)
At December 31, 2005	**(237)**

(ii) Deferred tax assets:

	Tax losses USD'000
At December 14, 2004	–
Credited to Income statement	4,127
Acquisition of subsidiary	46,414
At December 31, 2005	**50,541**
	50,304

10. INVENTORIES

	2005 USD'000
(a) Washed Bauxite (see Note (b) below)	20
Consumables (at cost)	7,499
Less: provision for write down	(364)
	7,155

(b) The cost of inventories recognised as expense and included in cost of sales amounted to USD 62,000.

11. TRADE AND OTHER RECEIVABLES

	2005 USD'000
Advances and prepayments	8,647
Receivables from related parties	39
Other receivables	91
	8,777

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

12. SHARE CAPITAL

	Number of shares 2005	Ordinary shares 2005 USD'000
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**

(i) The total authorised number of ordinary shares is 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 47p 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 50p each and were fully paid, on second placing equivalent to USD 17,680,000.

(b) Share options – Employees

Share options are granted to directors and to selected employees. The exercise price of the granted option is equal to 47p 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 vests immediately, one third will vest on the first anniversary of the date of grant, that is on August 15, 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.

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 Nabarro Wells & 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.

13. BORROWINGS

	2005 USD'000
(a) Non-current:	
Government of Sierra Leone loan	**28,220**
Loans from related company	**170**
Total borrowings	**28,390**

(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 months or less USD'000	6-12 months USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
At December 31, 2005					
Total borrowings	–	–	170	28,220	**28,390**

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

	2005 USD'000
After one year and before two years	**170**
After two years and before five years	–
After five years	**28,220**
	28,390

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

	2005 USD'000
After one year and before five years	
Loans from related company	**170**
After two years and before five years	–
After five years	
Government of Sierra Leone loan	**28,220**

13. BORROWINGS (CONTINUED)

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

	2005 Euro %	2005 USD %
Government of Sierra Leone loan	8	–
Loans from related company	–	15

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

	2005 USD'000
Euro	28,220
US Dollar	170
	28,390

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

14. PROVISION FOR LIABILITIES AND CHARGES

	2005 USD'000
At December 14, 2004	–
Addition through business combination	2,150
At December 31, 2005	2,150

Rehabilitation

The area to be rehabilitated remains the same since no mining activity was carried out since the closure of the mines. 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.

15. TRADE AND OTHER PAYABLES

	2005 USD'000
Trade payables	3,615
Amounts due to related parties	846
Other payables and accrued expenses	5,164
	9,625

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

16. INCOME TAX EXPENSE

	2005 USD'000
(a) Current tax on the adjusted profit for the period at 0%–30%	–
Deferred income tax (Note 9)	3,989
Minimum turnover tax	(5)
Credit to Income statement	3,984

16. INCOME TAX EXPENSE (CONTINUED)

(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:

	2005 USD'000
Loss before tax	(17,561)
Tax calculated at 0%	–
Effect of different tax rates in different countries	(4,301)
Investment allowance	(8)
Income not subject to tax	(95)
Expenses not deductible for tax purposes	509
Others	(94)
Minimum turnover tax	5
Tax credit	(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. These amounts have yet to be agreed with the Commissioner of Income Tax of Sierra Leone.

(d) Current tax liabilities

	2005 USD'000
At December 14, 2004	–
Addition through business combination	5
Charged to the Income statement (see Note 16(a) above)	5
At December 31, 2005	**10**

17. LOSS BEFORE TAXATION

	2005 USD'000
Loss before taxation is arrived at after:	
Charging:	
Depreciation on property, plant and equipment (Note 5)	
– owned assets	1,600
Amortisation of intangible assets (Note 6)	6
Employee benefit expense (Note 19)	3,831

18. EXPENSES BY NATURE

	2005 USD'000
Depreciation (Note 5)	1,600
Amortisation (Note 6)	6
Employee benefit expense (Note 19)	3,831
Changes in inventories of finished goods and work in progress	62
Transportation	9
Other expenses	13,623
Total cost of sales, selling and marketing and administrative expenses	19,131

19. EMPLOYEE BENEFIT EXPENSE

	2005 USD'000
Wages and salaries, including termination benefits	926
Social security costs	271
Share options granted to directors and employees	2,634
	3,831

20. OTHER INCOME

	2005 USD'000
Interest income	1,721

21. FINANCE COSTS

	2005 USD'000
Interest expense:	
– Government of Sierra Leone loan	(1,314)
– Other loans not repayable by instalments	(78)
Total borrowing costs	(1,392)
Less: amounts included in the cost of qualifying assets	1,314
Net foreign exchange transaction losses (Note 22)	(411)
	(489)

22. NET FOREIGN EXCHANGE LOSSES

	2005 USD'000
The exchange differences charged to the income statement are included as follows:	
Finance costs (Note 21)	(411)
	(411)

23. LOSS PER SHARE

	2005
(a) From continuing operations	
Basic loss per share	
Loss attributable to equity holders of the Group from continuing operations (thousand)	(13,577)
Weighted average number of ordinary shares in issue	82,397,742
Basic loss per share from continuing operations	(0.16)

(b) As stated in Note 12(b), 5,979,970 share options granted to directors and selected employees will vest after year end and will potentially affect the earnings per share (EPS). Because there is a reduction in loss per share resulting from the assumption that the share options are exercised, the latter are anti dilutive and are ignored in the computation of diluted EPS. As there are no other instruments that may have a potential dilutive effect, no diluted EPS is disclosed.

24. BUSINESS COMBINATIONS

(a) Acquisition

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:

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

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.

24. BUSINESS COMBINATIONS (CONTINUED)

(b) The assets and liabilities arising from the acquisition are as follows:

	Fair value USD'000
Fair value of net assets acquired**	58,568
Add: Goodwill	12,876
	71,444
Less:	
Purchase consideration settled by shares issued	(71,444)
Cash and cash equivalents in subsidiaries acquired	(32,553)
Net cash inflow on acquisition	**(32,553)**

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

25. NOTES TO THE CASH FLOW STATEMENT

(a) Cash used in operations

	2005 USD'000
Loss for the period	(17,561)
Adjustments for:	
Depreciation on Property, Plant and Equipment	1,600
Amortisation of Intangible assets	6
Share option scheme – Employee	2,634
Share option scheme – Professional service	824
Interest income	(1,721)
Interest expense	78
Exchange gains on borrowings	(2,210)
	(16,350)
Changes in working capital (excluding the effects of acquisition of subsidiaries)	
– inventories	(96)
– trade and other receivables	(13,476)
– trade and other payables	2,948
Cash absorbed in operations	(26,974)

(b) Non cash transactions

The principal non cash transaction is the issue of shares as consideration for the acquisition of subsidiaries listed in Note 7. In order to gain 100% holding in Global Aluminium Limited (GAL) and Titanium Fields Resources Ltd (TFR), the Company issued shares equivalent to USD 71,444,000 to the former owner of GAL and TFR. This transaction did not involve any movement of cash.

25. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(c) Cash and cash equivalents

	2005 USD'000
Cash in hand and at bank	**17,286**
Short term bank deposits	**62,396**
Cash and cash equivalents	**79,682**

26. CAPITAL COMMITMENTS

	2005 USD'000
Property, plant and equipment acquisition contracted for at the balance sheet date but not yet incurred:	**12,739**

(a) Sierra Rutile Limited had capital commitments in respect of Dredge 1 Project amounting to USD8.3m. It also entered into an agreement with OCI Engineering Limited to purchase the Mambang Dredge in Malaysia for an agreed amount of USD 3,750,000, out of which USD 100,000 has already been paid.

(b) At year ended December 31, 2005, Sierra Mineral Holdings 1 Limited had capital commitments which amount to USD 668,753. This relates to the balance outstanding (milestone payment) on the Engineering, Procurement, Construction and Commissioning Agreement signed with P.W Mining International Limited for the rehabilitation of the mines.

(c) As announced on 21 December, 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 cash payable on completion, subject to satisfactory due diligence by TRG. Gondwana (Investments) S.A is a private company which is wholly owned by Mr. Jean Raymond Boulle, a shareholder with substantial interest in TRG. The purchase price represents Mr. Jean Raymond Boulle's approximate expenditures on the Rotifunk mineral sands prospect over the period 2002-2005.

27. RELATED PARTY TRANSACTIONS

(a) Transactions and balances

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

27. RELATED PARTY TRANSACTIONS (CONTINUED)

*Mr. John Sisay is a Director of Sierra Rutile Limited (SRL), an operating subsidiary based in Sierra Leone and the loan was advanced to him by SRL prior to 16 May 2005 and is included in receivables.

**Included in the interest of USD 134,000 is an amount of USD 78,000 arising after 16 May 2005, the date of acquisition.
Prior to the acquisition, Mineral Holdings 1 Limited advanced a further sum of USD 36,000 to Sierra Mineral Holdings 1 Limited.

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

(b) Loans and advances

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

(c) Capital commitments

As announced on 21 December, 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. This is more fully explained in note 26.

(d) Key management personnel compensation

	USD'000
Directors' fee	**365**
Salaries and short-term employee benefits	**2,366**
Post employment benefits	**174**
Other long term benefits	**85**
Termination benefits	**3**
Share options – based payment	**1,168**
	4,161

28. 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 37m. 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, 2005, the shares were not yet transferred and PAYE accrued at that date in Sierra Rutile Limited amounted to USD 497,000.

29. EVENTS AFTER BALANCE SHEET DATE

Subsequent to the balance sheet date the Group has commissioned the Dredge 1 Project and commercial production commenced in the first quarter of 2006. Work has started on Dredge 2 Project.

30. REPORTING CURRENCY

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

31. 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.

COMBINED FINANCIAL INFORMATION

FOR THE 3 YEARS ENDED DECEMBER 31, 2004

The following Income statements and Balance Sheets have been extracted from the Accountant's Report on the Operating Group dated 19 August 2005 within the TRG Admission Document. It should be noted that the Operating Group excludes the new holding company TRG which had a net loss of USD 50,000 at year end December 31, 2004 represented by its share capital.

The principal businesses within the Operating Group are:

Business	Country of incorporation
Incorporation	
Titanium Fields Resources Ltd.	BVI
Global Aluminium Limited	BVI
SRL Acquisition No. 1 Limited	BVI
SRL Acquisition No. 3, Limited	BVI
Sierra Rutile Holdings Limited	BVI
Sierra Rutile Limited	Sierra Leone
The Natural Rutile Company, Limited	BVI
Sierra Mineral Holdings I, Ltd.	BVI
Bauxite Marketing Ltd. BVI	

These businesses together have not, prior to acquisition by TRG in 2005 and subsequent IPO, previously constituted a legal group and hence consolidated historical financial information has not been prepared. However, the companies have been under common ownership throughout the last three years (or date of incorporation, if later) and combined financial information for the Operating Group was prepared for the Admission Document by aggregating the financial statements of the businesses listed above.

The financial information that has been aggregated has been taken from the applicable individual financial accounts prepared for the Operating Group.This differs from the presentation of TRG's results for the period to December 31, 2005 which are prepared in accordance with the purchase method and therefore include trading results for subsidiaries acquired for the six and a half months to December 31, 2005.

The combined financial information reflects overheads, interest payments (including charges on funding balances with other companies in the Overall Group) and tax charges actually incurred in the relevant years by the companies within the Operating Group. Accordingly:

- as the combined financial information has not been adjusted for any differences which may exist between amounts charged to the Operating Group companies for services provided by the Overall Group companies and the costs which would have been incurred by the Operating Group had it not been part of the Overall Group, the overheads reflected in the combined financial information may not be representative of future results; and

- net interest payable shown in the combined financial information includes net interest payable on the part of the Overall Group's investment in the Operating Group that has historically taken the form of intra-group funding balances, whereas future net interest costs will depend on the new capital structure of the Operating Group.

COMBINED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31

	2004 USD'000	2003 USD'000	2002 USD'000
Revenue	1,051	–	–
Cost of sales	(54)	–	–
Gross profit	997	–	–
Other operating income	575	5,325	84
Administrative expenses	(5,733)	(7,782)	(8,132)
Other operating expenses	(6,473)	(6,151)	(2,022)
Loss from operations	(10,634)	(8,608)	(10,070)
Gain on disposal of assets	–	214	–
Investment income	767	–	–
Net finance costs	(1,656)	(996)	(774)
Loss on ordinary activities before taxation	(11,523)	(9,390)	(10,844)
Income tax benefit/(expense)	43,804	–	(106)
Net profit/(loss) for the year	32,281	(9,390)	(10,950)

COMBINED BALANCE SHEETS

AS AT DECEMBER 31

	2004 USD'000	2003 USD'000	2002 USD'000
ASSETS			
Fixed assets	45,083	51,564	61,266
Deferred tax assets	44,019	–	–
Long term assets	727	727	727
Total non current assets	89,829	52,291	61,993
Trade receivables	–	–	8
Inventories	7,059	7,078	8,078
Other receivables	132	251	26
Prepaid expense	31	6	–
Cash and cash equivalents	102	128	297
Total current assets	7,324	7,463	8,409
Total assets	97,153	59,754	70,402
EQUITY			
Total equity and reserves	60,842	40,361	49,701
LIABILITIES			
Provision for rehabilitation	2,150	1,150	1,150
Non-current payables	32,695	16,347	12,149
Deferred tax liability	210	–	–
Total non current liabilities	35,055	17,497	13,299
Payables and provisions	1,256	1,896	7,402
Total current liabilities	36,311	19,393	20,701
Total liabilities			
Total equity and liabilities	97,153	59,754	70,402

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