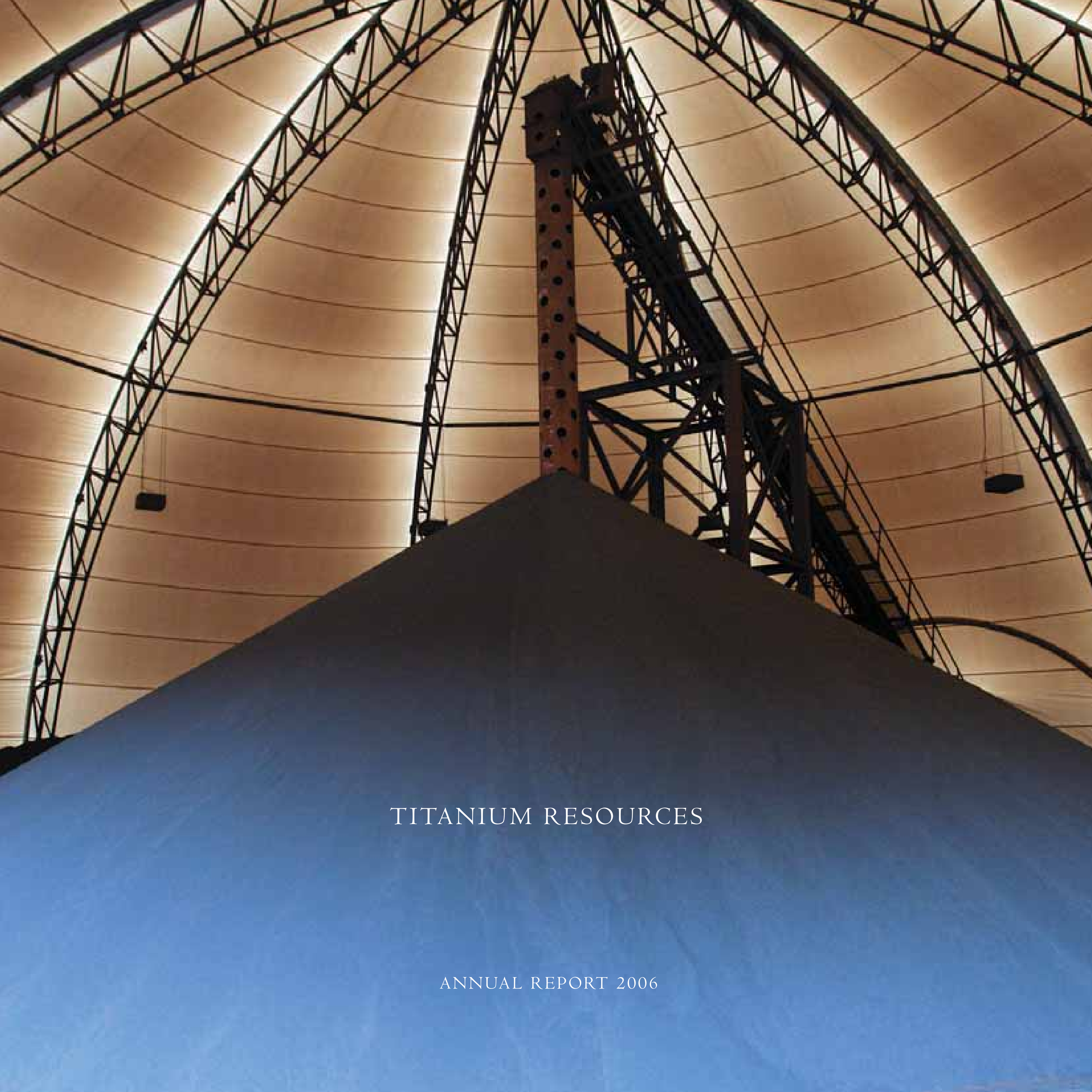


TITANIUM RESOURCES

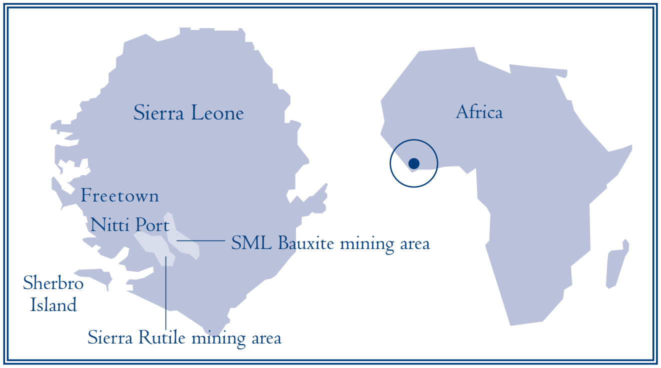
ANNUAL REPORT 2006

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.

2006 at a Glance

- Sales of US$51.3 million (Year to December 2005, US$337,000)
- Gross profit US$21.5 million (Year to December 2005, US$239,000)
- Attributable loss before taxation of US$1.47 million (Year to December 2005, US$17.5 million)
- Profit after tax of US$34 million due to recognition of US$35.9 million tax credit
- 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 D2; Dredge D3; power house conversion to Heavy Fuel Oil; and feed preparation and dry plant upgrade
- 50,521 tonnes of rutile and 630,018 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



Chairman's Statement

Dear Shareholders

Titanium Resources Group has completed its first full financial year as a publicly listed company and, on behalf of the Board I would like to thank our employees for their hard work during the period. They have ensured that the Company will achieve its potential and reinforce the extent to which Sierra Leone is back in business.

Restart of operations and financial results

TRG restarted its mines in Sierra Leone, following an eleven year interval, and commercial scale production began in the first half of 2006. As a result we are the largest individual contributor to the country's foreign export earnings and also the largest private sector employer.

With our start up and operational successes, the Company also faced significant cost pressures in line with the rest of the global mining industry. In July we announced a number of initiatives to address the significant increase in fuel costs and these measures will be effective in securing power for our plants at significantly reduced cost. TRG produced in excess of 50,000 tonnes of rutile and 630,000 tonnes of bauxite in the second half of the year slightly ahead of forecasts.

Despite reporting an attributable loss for the year of US$1.47 million on sales of US$51.3 million, the Company reported a profit after tax of some US$34 million due to the recognition of deferred income tax losses from previous years. In the future these tax credits can be set against profits to the benefit of all shareholders.

Management

Since Len Comerford joined TRG as Chief Executive last year he has appointed a number of senior managers in positions which will enable the Company to fully exploit the opportunities which exist for TRG in Sierra Leone and in other territories. At a time when the mining industry is short on expertise we are particularly fortunate to have attracted and retained individuals of this calibre. The Board has been impressed by progress made already by the revitalised senior management team, and we look forward to the future.

As described in detail later in this Report, the Company is managing operations efficiently, progressing towards a doubling of rutile production over the next year and ensuring that exploration helps to meet the continuing needs of our customers in bauxite and rutile.

We have successfully negotiated additional concessions in Sierra Leone, such as Turners' Peninsular announced on 4th September in the Company's interim results, which extend our prospects. We have also begun significant drilling programmes to establish reserves within our existing concession areas to capture value in the near term by extending the life of our rutile and bauxite mines.

In the year ended 31 December 2006, Max McGarvie resigned as a Director of TRG. I would like to take this opportunity to thank Max on behalf of the rest of the Board for his contribution and we look forward to benefiting from his input on a consultancy basis in the future.

Outlook

The market outlook for both rutile and bauxite remains positive. In rutile, several existing customers have expressed interest in increasing their off-take agreements. In bauxite, the Company's production remains covered by off-take agreements and one of our long term contracts has been extended beyond its current length.

Sierra Leone, National Elections

With the country due to hold free and fair democratic elections in July 2007, the Company is confident that Sierra Leone will continue to develop as an increasingly stable, secure and prosperous nation.

I believe that the Company is well positioned to benefit from the continued development of Sierra Leone and to apply our expertise to delivering the pipeline of growth projects in 2007.

Walter Kansteiner Chairman

Operations at the Sierra Rutile mine

Theresa Musa, Sampler

Bauxite loading at Nitti Port

Rutile is a high titanium-bearing mineral used in the production of titanium dioxide pigments, titanium metal and welding rods.

The SRL Rutile mine

The Sierra Rutile mine is located in the southwest of Sierra Leone about 135 km southeast of Freetown. The mine's production previously represented around 30% of the world's annual supply of natural rutile.

SRL holds mining leases over a land area of 580 km^2 and proven and probable reserves were estimated by Mine Development Associates on 19 August 2005 as 259 million tonnes at 1.48 percent recoverable rutile giving an expected mine life of 19 years from that date. The mine site is self-sufficient with its own port facilities, power supply and distribution system, water reticulation system, airport and road system to Freetown.

From left to right
Ibrahim Kamara, Welder
Prince Munda, Electrician
Francis Momoh
Peter Moses, Welding supervisor
Albert Nabie, Welder
Francis Moriba, Electrician
Stephen Allieu,
Mechanical Maintenance supervisor

Spiral section on Dredge D1's wet separation plant

Dredge D1 wet separation plant

over 70,000 tonnes of rutile produced in 2006

SRL's production accounted for 13.6% of world rutile production in 2006

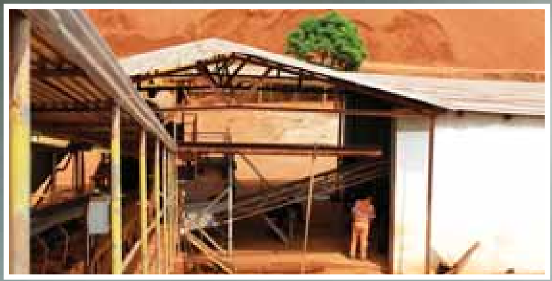
Following completion of Dredge D2 SRL's rutile production capacity is scheduled to more than double by 2008

Bauxite is the mineral ore of aluminum which is used in the packaging, aerospace, automotive and construction industries.

The SML Bauxite mine

The Bauxite mining lease covers an area of more than 321 km^2 and is located approximately 150 km southeast of Freetown. The mine produces high grade metallurgical bauxite which is used as a process 'sweetener' by major alumina refineries.

Washed bauxite reserves in the SML lease area were estimated by Mine Development Associates on 19 August 2005 as 12.4 million tonnes grading 53.1 per cent alumina (aluminium oxide, Al2O3) with an average silica content of 3.03 per cent.



SML Bauxite mine truck fleet

Bauxite dryer and storage dome, SML Bauxite mine

Washed bauxite silo feed conveyer, SML Bauxite mine

Over 1 million tonnes of bauxite produced in 2006

All production sold under off-take agreements

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 D2 project, Dredge D3 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 TiO_2 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 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 (Dredge D2) is scheduled to 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 recognised leaders in their fields. We are currently on schedule to commence commissioning in the 4th quarter 2007.

We purchased a third dredge (Dredge D3) which is expected to add another 40,000 tonnes per annum to production, making the Company 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. 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 Produced (tonnes)	H2 06 Produced (tonnes)	Full Year 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 (Year of December 2005, US$337,000). Attributable losses before taxation of US$1.47 million (Year to December 2005, US$17.5 million) reflected the cost control measures put in place in response to input cost increases.

During the year, 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.

Chief Executive's Review

Our marketing subsidiary has successfully sold all the products that the company will produce this year, and has in place commitments for the purchase of all 2008 production. The marketing subsidiary 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.

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.

Water bowser carrying out road surface dust suppression

SRL dry plant

Children from the UBC (United Brethren in Christ) Primary School, supported by TRG

Our other projects in Sierra Leone are proceeding, notably at Turners' Peninsular, our exploration concession some 40 km 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 the 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.

Chief Executive's Review

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.

Health & Safety System

In 2006, we implemented a world class Health & Safety Management System. This year, the Health & Safety personnel will implement a comprehensive series of training programs on Accident/Incident Investigation, Hazard Identification & Risk Assessment.

The new system helped us to achieve a 94.4% improvement in Long Term Injury rates in 2006 (from 6.46 to 0.36). We recorded no work related fatality in 2006. While the number of LTI's was significantly lower than the previous year, we remain committed to ensuring that Health & Safety is central to the way we manage our business.

Occupational Health & HIV/AIDS

We have developed a series of programmes that address prevention of HIV/AIDS. We have formed partnerships with local NGOs, the Mine Workers Union and the National AIDS Secretariat of Sierra Leone to create awareness of HIV/AIDS among the workforce and mining community. Our health personnel are being trained to conduct voluntary testing, counselling and to administer antiretroviral drugs.

Environment

We are working with international and local consultants in addressing environmental issues. We are also facilitating the Darwin Experimental Project to develop practical methods for successful reclamation and conservation programmes that both conserve biodiversity and enhance community livelihoods. The focus of the project will be to integrate current scientific information with local knowledge through partnership between NGOs, local communities, our mine sites and the universities in Sierra Leone.

Dredge D2 under construction,
Sierra Rutile mine

From left to right
Sam Kajue, Winch man
Francis Vandi, Winch man
Daniel Kpanabom, Security
Frederick Hamilton, Dredge Shift supervisor
Lansana Lahai, Winch man
Henry Musa (seated), Winch man

Daniel Kpanabom, Security guard

Communities

Our Community Development Department ensures that dialogue is maintained with the communities in our mining areas and that programmes, agreed with our local community partners, are implemented and monitored. Our payments of surface rent to local communities and into the agricultural development fund for our area have helped to stimulate the local economy with the population of our mining area growing from 5,000 people to 105,000 people within a couple of years.

Our not for profit Sierra Rutile Foundation was established and continues to hold discussions with the local communities on suitable sustainable projects that the Foundation can support. We are delighted to announce that the Foundation has funded a Bio- fuel conversion plant that will be installed and run by a local co-operative to produce bio-diesel from palm oil. We are very excited by this development and believe that it will be the start of a successful, sustainable business.

With the continued support of our shareholders, the Government of Sierra Leone and other stakeholders we look forward to delivering on the opportunities we have in the year ahead.

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.

Sir Sam Jonah KBE Non-Executive Director

Sir Sam Jonah was until recently 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, 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 over 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 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 sixteen 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 around the world. 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

Company Secretary
Audrey Irene Hoe-Richardson
investors@titaniumresources.com

Contact details
Audrey Irene Hoe-Richardson
Boulevard Royal 25-B
L-2449 Luxembourg
Grand Duche de Luxembourg

Registered Office
Kingston Chambers
Road Town, Tortola, British Virgin Islands

Advisers

Nominated advisers
Nabarro Wells & Co. Limited
Saddlers House
Gutter Lane
London EC2V 6HS

Stockbrokers
Arbuthnot
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Solicitors
Faegre & Benson LLP
7 Pilgrim Street
London EC4V 6LB

Auditors
BDO De Chazal Du Mee
10, Frere Felix De Valois Street
Port Louis
Mauritius

Registrars
Computershare Investor Services (Channel Islands) Limited
P.O. Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
Channel Islands

Company number
629748

Directors' Report

The Directors submit their report and the audited financial statements of the Company for the period ended 31 December 2006.

Results and dividend

The results of the Company are shown on page 22.

The Directors have not paid a dividend during the year (2006: $Nil).

Principal activities and review of the business

The Company's principal activity is exploring for, producing and marketing industrial minerals, primarily rutile and bauxite, in Sierra Leone, West Africa. The Company owns the Sierra Rutile mine and the SML Bauxite mine in Sierra Leone. Both mines have restarted production and are being expanded. The SML mine and the Sierra Rutile mine restarted commercial operations in the first quarter of 2006. The first shipments of bauxite and rutile from the Company's mines were completed in February and May 2006 respectively.

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

Health, Safety, Environment and Communities

The Company 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

Corporate Governance

The Directors intend, where practicable for a company of Titanium Resources' size and nature, to comply with the Combined Code.

Directors' Report

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 2006 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 once 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. Walter Kansteiner (appointed 16 February 2005)
Mr. Len Comerford (appointed 1 May 2006)
Mr. Wayne Malouf (appointed 16 February 2005)
Mr. Max McGarvie (resigned 9 October 2006)

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 December 31, 2006. 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
Mr Len Comerford	77.75p	1 May 2006	1 May 2011	750,000

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 2006:

Holder	No. of shares	%
Jean-Raymond Boulle	90,320,332	43.5
Mackenzie Financial Corporation	16,825,200	8.1
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 Company 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.

Directors' Report

Annual General Meeting

The AGM of the company will be held at 9:00 am (British Summer Time) on 16 May 2007 at The Hilton London Metropole, 225 Edgware Road, London W2 1JU.

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.

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
10 April 2007

Independent Auditors' Report to the Members

This report is made solely to the members of Titanium Resources Group Ltd (the "Company"), 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 auditors' 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.

Report on the Financial Statements
We have audited the financial statements of Titanium Resources Group Ltd and its subsidiaries (the "Group") on pages pages 22 to 55 which comprise the balance sheets at December 31, 2006 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements on pages pages 22 to 55 give a true and fair view of the financial position of the Group at December 31, 2006 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements
We have no relationship with or interests in the group other than in our capacity as auditors, tax and business advisers and dealings in the ordinary course of business.

We have obtained all information and explanations we have required.

In our opinion, proper accounting records have been kept by the group as far as it appears from our examination of those records.

Port Louis, Mauritius.
10 April 2007

BDO De Chazal Du Mee
Chartered Accountants

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

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

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	(29,764)	(98)
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	(5,866)	(1,606)
		2,417	(17,072)
Exceptional item	23	(2,200)	–
Finance costs	24	(1,694)	(489)
Loss before taxation	19	(1,477)	(17,561)
Taxation	18(a)	35,923	3,984
Profit/(loss) for the year/period attributable to equity holders of the group		34,446	(13,577)
Earnings/(loss) per share (USD)			
– basic	26(a)	0.16	(0.16)
– diluted	26(b)	0.15	–

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2006

	Share capital USD'000	Revenue reserve/ (deficit) USD'000	Total 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	–	34,446	34,446
At December 31, 2006	**198,160**	**20,869**	**219,029**
Balance at December 14, 2004	–	–	–
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 which follow form an integral part of these financial statements.

Consolidated Cash Flow 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
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.

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. Box173, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 employee's 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3. FINANCIAL RISK FACTORS (CONTINUED)

(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

	Infrastructure USD'000	Plant, machinery and equipment USD'000	Marine fleet USD'000	Mineral sand prospect and Mine development USD'000	Capital work in progress USD'000	Powerhouse USD'000	Exploration USD'000	Rehabilitation USD'000	Total 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**

	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
(b) Cost								
At December 14, 2004	–	–	–	–	–	–	–	–
Acq. thru' 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	–	–	–	–	–	–	–	–
Acq. thru' business combination	13,589	96,984	–	24,565	168	–	–	135,306
Charge for the period	79	1,362	–	159	–	–	–	1,600
Write Off	–	(105)	–	–	–	–	–	(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)

(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'.

(f) Depreciation charge of USD 5,829,000 (2005: 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 January 1, 2006	12,876	115	**12,991**
Addition during the year	–	167	**167**
At December 31, 2006	12,876	282	**13,158**
Amortisation			
At January 1, 2006	–	6	**6**
Charge for the year	–	37	**37**
At December 31, 2006	–	43	**43**
Net book value			
At December 31, 2006	12,876	239	**13,115**
(b) 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**

(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:

Name 2006	Class of shares held	Year end	Direct	Indirect	Direct	Indirect	Country of Incorporation	Business
Global Aluminium Limited	Ordinary	December 31, 2006	100%	–	100%	–	British Virgin Islands	Intermediate holding company
Bauxite Marketing Ltd	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Marketing of Bauxite
Sierra Mineral Holdings 1 Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Extraction of Bauxite
Titanium Fields Resources Ltd	Ordinary	December 31, 2006	100%	–	100%	–	British Virgin Islands	Intermediate holding company
SRL Acquisition No.1 Limited	1 A share	December 31, 2006	–	100%	–	100%	British Virgin Islands	Intermediate holding company
SRL Acquisition No.3 Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Intermediate holding company
The Natural Rutile Company Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Marketing of Rutile
Sierra Rutile Holdings Limited	Ordinary	December 31, 2006	–	100%	–	99.60%	British Virgin Islands	Intermediate holding company
Sierra Rutile Limited	Ordinary	December 31, 2006	–	100%	–	99.60%	Sierra Leone	Extraction, concentration and sale of Rutile and Ilmenite sands.

7. INVESTMENTS IN SUBSIDIARY COMPANIES (CONTINUED)

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

Name	Class of shares held	Year end	Proportion of ownership interest		Proportion of voting power held		Country of Incorporation	Main Business
			Direct	Indirect	Direct	Indirect		
Global Aluminium Limited	Ordinary	December 31, 2006	100%	–	100%	–	British Virgin Islands	Intermediate holding company
Bauxite Marketing Ltd	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Marketing of Bauxite
Sierra Mineral Holdings 1 Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Extraction of Bauxite
Titanium Fields Resources Ltd	Ordinary	December 31, 2006	100%	–	100%	–	British Virgin Islands	Intermediate holding company
SRL Acquisition No.1 Limited	1 A share	December 31, 2006	–	100%	–	100%	British Virgin Islands	Intermediate holding company
SRL Acquisition No.3 Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Intermediate holding company
The Natural Rutile Company Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Marketing of Rutile
Sierra Rutile Holdings Limited	Ordinary	December 31, 2006	–	100%	–	100%	British Virgin Islands	Intermediate holding company
Sierra Rutile Limited	Ordinary	December 31, 2006	–	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 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. FINANCIAL ASSETS

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

(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" Shareconfers 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

	2006 USD'000	2005 USD'000
Loan to the Government of Sierra Leone (see note (a) below)	727	727
Other non-current receivables	26	640
	753	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.

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:	2006 USD'000	2005 USD'000
Deferred tax assets	90,561	50,541
Deferred tax liabilities	(4,188)	(237)
	86,373	50,304

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.

10. DEFERRED INCOME TAX (CONTINUED)

(b) The movement on the deferred income tax account is as follows:	**2006 USD'000**	2005 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,	**86,373**	50,304

(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:

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)**
Charged to Income statement	**(3,951)**
At December 31, 2006	**(4,188)**

(ii) Deferred tax assets:	**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	**90,561**

11. INVENTORIES

	2006 USD'000	2005 USD'000
(a) Washed Bauxite	**604**	20
Rutile and Ilmenite	**5,371**	–
Consumables	**9,525**	7,499
Less: provision for write down	**(446)**	(364)
	15,054	7,155

(b) The cost of inventories recognised as expense and included in cost of sales amounted to USD 5,955,000 (2005: USD 62,000)

13. SHARE CAPITAL (CONTINUED)

(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 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 53p and 78p 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 shareholders' interests. Consequently, losses attributable to the minority in the consolidated subsidiaries exceeded minority 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

	2006 USD'000	2005 USD'000
(a) Non-current:		
Government of Sierra Leone loan	**36,856**	28,220
Loans from related company	–	170
	36,856	28,390
Current:		
Bank overdraft	**44**	–
Total borrowings	**36,900**	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, 2006					
Total borrowings	**44**	–	–	**36,856**	**36,900**
At December 31, 2005					
Total borrowings	–	–	170	28,220	28,390

(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	**36,856**	28,220
	36,856	28,390

15. BORROWINGS (CONTINUED)

(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	–	170
– After five years		
Government of Sierra Leone loan	**36,856**	28,220
	36,856	28,390

(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	**6.5**	**8.5**	–	–
Loans from related company	–	–	–	15

(f) The carrying amounts of the group's borrowings are denominated in the following currencies:	2006 USD'000	2005 USD'000
Euro	**36,859**	28,220
US Dollar	**41**	170
	36,900	28,390

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

16. PROVISION FOR LIABILITIES AND CHARGES

	2006 USD'000	2005 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 USD'000	2005 USD'000
Trade payables	**6,770**	3,615
Amounts due to related parties	**165**	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 USD'000	2005 USD'000
(a) Current tax on the adjusted profit for the year/period at 0% – 30%	**(268)**	–
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 USD'000	2005 USD'000
Loss before tax	**(1,477)**	(17,561)
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)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2006

20. EXPENSES BY NATURE

	2006 USD'000	2005 USD'000
Depreciation (note 5)	**5,829**	1,600
Amortisation (note 6)	**37**	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 USD'000	2005 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**	–
	2,812	1,721

23. EXCEPTIONAL ITEM

	2006 USD'000	2005 USD'000
Impairment of investment	**2,200**	–

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	**2,709**	1,392
Less: amounts included in the cost of qualifying assets	**–**	(1,314)
	2,709	78
Net foreign exchange transaction (gain)/losses (note 25)	**(1,015)**	411
	1,694	489

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)	**(1,015)**	411

26. EARNINGS/(LOSS) PER SHARE

	2006 USD	2005 USD
(a) Basic earnings/(loss) per share		
Profit/(loss) attributable to equity holders of the group (thousand)	**34,446**	(13,577)
Weighted average number of ordinary shares in issue	**212,513,731**	82,397,742
Basic earnings/(loss) per share	**0.16**	(0.16)
(b) Diluted earnings per share		
Profit attributable to equity holders of the group used to determine diluted earnings per share (thousand)	**34,446**	–
Number of shares		
Weighted average number of ordinary shares in issue	**212,513,731**	–
Adjustments for share options	**3,264,985**	–
Weighted average number of ordinary shares for diluted earnings per share	**215,778,716**	–
Diluted earnings per share	**0.15**	–

27. BUSINESS COMBINATIONS (CONTINUED)

(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:

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

29. CAPITAL COMMITMENTS

	2006 USD'000	2005 USD'000
Property, plant and equipment acquisition contracted for at the balance sheet date but not yet incurred:	**37,720**	12,739

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

	Interest USD'000	Loans or advances to/(from) USD'000	Amount owed to related parties USD'000	Total USD'000
(a) Transactions and balances				
(i) 2006				
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 an amount payable to him in respect of expenses he paid on behalf of Sierra Rutile Limited (SRL), an operating subsidiary based in Sierra Leone.

**During the period ended December 31, 2004, Sierra Mineral Holdings 1 Limited, an operating subsidiary based in Sierra Leone, entered into a fixed-priced 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 period ended December 31, 2005. 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.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

	Interest USD'000	Loans or advances to/(from) USD'000	Amount owed to related parties USD'000	Total USD'000
(ii) 2005				
Subsidiary company Director:				
Mr. John Sisay *	–	39	–	39
Mineral Holdings I 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 I Limited	243	–	–	243
SRL Acquisition No.1 Limited	200	–		200
	610	3	(846)	(233)

*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 owed 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.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management personnel compensation	2006 USD'000	2005 USD'000
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
	5,814	4,161

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 87.2% (2005:65.8%) of the company's shares.

The remaining 12.8% (2005:34.2%) of the shares is widely held.

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TITANIUM
RESOURCES GROUP

P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands