



Consolidated Financial Statements

**For the Years Ended
December 31, 2010, 2009 and 2008**

Independent Auditor's Report

**To the Shareholders
of TVI Pacific Resources Inc.**

We have audited the accompanying consolidated financial statements of TVI Pacific Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position, as at December 31, 2010, December 31, 2009 and December 31, 2008 and opening statement of financial position as at January 1, 2008 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2010, December 31, 2009 and December 31, 2008, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TVI Pacific Resources Inc. and its subsidiaries as at December 31, 2010, December 31, 2009 and December 31, 2008 and January 1, 2008 and their financial performance and their cash flows for the years ended December 31, 2010, December 31, 2009 and December 31, 2008 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

March 17, 2011

(2)

TVI Pacific Inc.
Consolidated Statement of Financial Position
December 31, 2010, 2009 and 2008
(in Canadian dollars)



| | December 31, 2010 | December 31, 2009 (note 4) | December 31, 2008 (note 4) | January 1, 2008 (note 4) |
|--|----------------------|----------------------------------|----------------------------------|--------------------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalent (note 6) | \$ 8,941,964 | \$ 13,978,620 | \$ 2,754,102 | \$ 1,028,833 |
| Accounts receivable (note 7) | 6,016,942 | 5,087,663 | 3,031,328 | 732,997 |
| Note receivable (note 8) | 1,179,005 | - | - | - |
| Advances to suppliers (note 9) | 807,907 | 639,448 | 100,271 | 59,683 |
| Inventories (note 10) | 7,139,311 | 2,578,954 | 2,373,803 | 2,890,471 |
| Prepaid expenses | 652,005 | 425,961 | 267,260 | 218,363 |
| Assets held for sale (note 11) | - | - | - | 764,754 |
| Total current assets | 24,737,134 | 22,710,646 | 8,526,764 | 5,695,101 |
| Non-current assets: | | | | |
| Restricted cash (note 12) | 1,260,660 | 118,582 | 501,567 | 121,919 |
| Available-for-sale financial asset (note 13) | 227,937 | - | - | - |
| Investment in an associate (note 14) | 1,482,500 | - | - | - |
| Property and equipment (note 15) | 20,066,519 | 21,413,585 | 25,648,926 | 16,185,572 |
| Mining claims and deferred exploration costs (note 16) | 3,949,658 | 5,659,041 | 6,572,267 | 1,362,916 |
| Other assets | 258,566 | 305,501 | 524,495 | 25,135 |
| Total non-current assets | 27,245,840 | 27,496,709 | 33,247,255 | 17,695,542 |
| Total assets | \$ 51,982,974 | \$ 50,207,355 | \$ 41,774,019 | \$ 23,390,643 |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 5,963,010 | \$ 5,494,263 | \$ 9,422,685 | \$ 13,411,165 |
| Liabilities related to assets held for sale (note 11) | - | - | - | 477,281 |
| Letter of credit facilities (note 17a) | 922,491 | 323,751 | 1,069,393 | 994,980 |
| Short-term loan facilities (note 17b) | 10,499,759 | - | 31,436,051 | - |
| Current portion of term facility (note 17c) | - | 7,477,095 | - | - |
| Current portion of asset retirement obligation (note 18) | 617,793 | 506,979 | 1,357,787 | 594,236 |
| Due to related parties (note 19) | 343,151 | 1,209,111 | 1,789,249 | 2,751,883 |
| Total current liabilities | 18,346,204 | 15,011,199 | 45,075,165 | 18,229,545 |
| Non-current liabilities: | | | | |
| Long term payable | - | - | 367,380 | - |
| Due to related parties | - | - | 591,834 | - |
| Term facility (note 17c) | - | 16,846,305 | - | - |
| Pension obligation (note 20) | 1,493,909 | 725,573 | 690,996 | 424,534 |
| Asset retirement obligation (note 18) | 2,546,588 | 2,087,686 | 1,445,432 | 1,405,734 |
| Total non-current liabilities | 4,040,497 | 19,659,564 | 3,095,642 | 1,830,268 |
| Total liabilities | 22,386,701 | 34,670,763 | 48,170,807 | 20,059,813 |
| Equity attributable to shareholders of the Company: | | | | |
| Share capital (note 22b) | 26,081,020 | 22,004,269 | 21,017,205 | 21,017,205 |
| Warrants (note 22d) | 487,034 | 2,403,496 | - | - |
| Contributed surplus (note 22e) | 5,114,161 | 4,676,813 | 3,630,155 | 3,507,196 |
| Deficit | (2,168,859) | (17,687,123) | (26,529,021) | (18,184,517) |
| Accumulated other comprehensive loss | (736,103) | (1,516,191) | (96,838) | (3,009,054) |
| | 28,777,253 | 9,881,264 | (1,978,499) | 3,330,830 |
| Non-controlling interests (note 23) | 819,020 | 5,655,328 | (4,418,289) | - |
| Total equity | 29,596,273 | 15,536,592 | (6,396,788) | 3,330,830 |
| Total liabilities and equity | \$ 51,982,974 | \$ 50,207,355 | \$ 41,774,019 | \$ 23,390,643 |

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

"Clifford M. James"
Clifford M. James, Director

"C. Brian Cramm"
C. Brian Cramm, Director

TVI Pacific Inc.
Consolidated Statements of Comprehensive Income (Loss)
December 31, 2010, 2009 and 2008
(in Canadian dollars)



| | 2010 | 2009 | 2008 |
|---|----------------------|----------------------|-----------------------|
| | | (note 4) | (note 4) |
| Revenues: | | | |
| Concentrate sales (note 25) | \$ 76,496,555 | \$ 66,700,244 | \$ 5,821,484 |
| Other revenues | 236,237 | 264,573 | 133,005 |
| Total revenues | 76,732,792 | 66,964,817 | 5,954,489 |
| Expenses: | | | |
| Mining, milling, drilling, and other expenses | 27,762,028 | 24,436,568 | 5,652,780 |
| Exploration costs | 5,712,877 | 431,142 | 1,580,243 |
| Administrative and general costs | 8,854,078 | 9,365,009 | 5,187,701 |
| Amortization and accretion | 12,609,400 | 7,256,146 | 1,601,791 |
| Impairment losses | - | - | 678,877 |
| Loss (gain) on sale of assets | 47,517 | (158,062) | (2,373,419) |
| Total expenses | 54,985,900 | 41,330,803 | 12,327,973 |
| Operating income (loss) | 21,746,892 | 25,634,014 | (6,373,484) |
| Other income (expense) | | | |
| Interest income | 40,709 | 138,291 | 18,275 |
| Interest expense, net of reversal | (293,204) | (7,356,989) | (1,832,224) |
| Loss on debt extinguishment | (9,386,774) | - | - |
| Foreign exchange loss | (720,061) | (97,474) | (4,478,211) |
| Other losses | (107,933) | - | - |
| Other expense, net | (10,467,263) | (7,316,172) | (6,292,160) |
| Net income (loss) from continuing operations | 11,279,629 | 18,317,842 | (12,665,644) |
| Net loss from discontinued operations (note 11) | - | - | (97,149) |
| Net income (loss) | 11,279,629 | 18,317,842 | (12,762,793) |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustment | 182,415 | (918,518) | 362,593 |
| Deemed realization of cumulative foreign currency translation | - | 96,838 | 2,549,623 |
| | 182,415 | (821,680) | 2,912,216 |
| Comprehensive income (loss) | \$ 11,462,044 | \$ 17,496,162 | \$ (9,850,577) |
| Net income (loss) attributable to: | | | |
| Shareholders of the Company - continuing operations | \$ 10,460,609 | \$ 8,841,898 | \$ (8,247,355) |
| Shareholders of the Company - discontinued operations | - | - | (97,149) |
| Non-controlling interests | 819,020 | 9,475,944 | (4,418,289) |
| | \$ 11,279,629 | \$ 18,317,842 | \$ (12,762,793) |
| Comprehensive income (loss) attributable to: | | | |
| Shareholders of the Company - continuing operations | \$ 10,643,024 | \$ 7,422,545 | \$ (5,335,139) |
| Shareholders of the Company - discontinued operations | - | - | (97,149) |
| Non-controlling interests | 819,020 | 10,073,617 | (4,418,289) |
| | \$ 11,462,044 | \$ 17,496,162 | \$ (9,850,577) |
| Net income (loss) per share attributable to shareholders of the Company: | | | |
| Basic – continuing operations | \$ 0.022 | \$ 0.019 | \$ (0.020) |
| Basic – discontinued operations | - | - | (0.000) |
| Diluted | 0.021 | 0.017 | (0.020) |
| Weighted average number of common shares: | | | |
| Basic (note 24) | 485,303,502 | 461,631,750 | 406,240,640 |
| Diluted (note 24) | 510,091,365 | 518,315,527 | 406,240,640 |

The accompanying notes are an integral part of these consolidated financial statements.

TVI Pacific Inc.
Consolidated Statements of Changes in Equity
December 31, 2010, 2009 and 2008
(in Canadian dollars)



| | Attributable to shareholders of the Company (note 4) | | | | | | Non-controlling interests (note 23) | Total Equity |
|---|--|---------------------|--------------------------------|-----------------------|--------------------------|----------------------|-------------------------------------|----------------------|
| | Share capital (Note 22b) | Warrants (Note 22d) | Contributed surplus (Note 22e) | Deficit | Other comprehensive loss | Subtotal | | |
| January 1, 2008 | \$ 21,017,205 | \$ - | \$ 3,507,196 | \$(18,184,517) | \$ (3,009,054) | \$ 3,330,830 | \$ - | \$ 3,330,830 |
| Stock-based compensation | - | - | 242,563 | - | - | 242,563 | - | 242,563 |
| Options forfeited | - | - | (119,604) | - | - | (119,604) | - | (119,604) |
| Transactions with owners | - | - | 122,959 | - | - | 122,959 | - | 122,959 |
| Net loss | - | - | - | (8,344,504) | - | (8,344,504) | (4,418,289) | (12,762,793) |
| Other comprehensive income (loss) | - | - | - | - | - | - | - | - |
| Foreign currency translation adjustment | - | - | - | - | (344,554) | (344,554) | - | (344,554) |
| Deemed realization of cumulative foreign currency translation | - | - | - | - | 3,256,770 | 3,256,770 | - | 3,256,770 |
| Total comprehensive income (loss) | - | - | - | (8,344,504) | 2,912,216 | (5,432,288) | (4,418,289) | (9,850,577) |
| December 31, 2008 | 21,017,205 | - | 3,630,155 | (26,529,021) | (96,838) | (1,978,499) | (4,418,289) | (6,396,788) |
| Shares issued in private placement | 12,500 | - | - | - | - | 12,500 | - | 12,500 |
| Shares issued in exchange for debt obligation | 1,463,206 | - | - | - | - | 1,463,206 | - | 1,463,206 |
| Share issue cost | (505,345) | - | - | - | - | (505,345) | - | (505,345) |
| Exercise of options | 16,703 | - | (7,692) | - | - | 9,011 | - | 9,011 |
| Warrants granted | - | 2,403,496 | - | - | - | 2,403,496 | - | 2,403,496 |
| Stock-based compensation | - | - | 1,064,172 | - | - | 1,064,172 | - | 1,064,172 |
| Options forfeited | - | - | (9,822) | - | - | (9,822) | - | (9,822) |
| Transactions with owners | 987,064 | 2,403,496 | 1,046,658 | - | - | 4,437,218 | - | 4,437,218 |
| Net income | - | - | - | 8,841,898 | - | 8,841,898 | 9,475,944 | 18,317,842 |
| Other comprehensive income (loss) | - | - | - | - | - | - | - | - |
| Foreign currency translation adjustment | - | - | - | - | (1,516,191) | (1,516,191) | 597,673 | (918,518) |
| Deemed realization of cumulative foreign currency translation | - | - | - | - | 96,838 | 96,838 | - | 96,838 |
| Total comprehensive income (loss) | - | - | - | 8,841,898 | (1,419,353) | 7,422,545 | 10,073,617 | 17,496,162 |
| December 31, 2009 | 22,004,269 | 2,403,496 | 4,676,813 | (17,687,123) | (1,516,191) | 9,881,264 | 5,655,328 | 15,536,592 |
| Shares issued in exchange for debt obligation | 957,707 | - | - | - | - | 957,707 | - | 957,707 |
| Share issue cost | (3,619) | - | - | - | - | (3,619) | - | (3,619) |
| Exercise of options | 59,165 | - | (25,533) | - | - | 33,632 | - | 33,632 |
| Exercise of warrants | 3,063,498 | (1,916,462) | - | - | - | 1,147,036 | - | 1,147,036 |
| Stock-based compensation | - | - | 503,991 | - | - | 503,991 | - | 503,991 |
| Options forfeited | - | - | (41,110) | - | - | (41,110) | - | (41,110) |
| Transactions with owners | 4,076,751 | (1,916,462) | 437,348 | - | - | 2,597,637 | - | 2,597,637 |
| Net income | - | - | - | 10,460,609 | - | 10,460,609 | 819,020 | 11,279,629 |
| Reversal of non-controlling interests | - | - | - | 5,057,655 | 597,673 | 5,655,328 | (5,655,328) | - |
| Other comprehensive income (loss) | - | - | - | - | - | - | - | - |
| Foreign currency translation adjustment | - | - | - | - | 182,415 | 182,415 | - | 182,415 |
| Total comprehensive income | - | - | - | 15,518,264 | 780,088 | 16,298,352 | (4,836,308) | 11,462,044 |
| December 31, 2010 | \$ 26,081,020 | \$ 487,034 | \$ 5,114,161 | \$ (2,168,859) | \$ (736,103) | \$ 28,777,253 | \$ 819,020 | \$ 29,596,273 |

The accompanying notes are an integral part of these consolidated financial statements.

TVI Pacific Inc.
Consolidated Statements of Cash Flows
December 31, 2010, 2009 and 2008
(in Canadian dollars)



| | 2010 | 2009 | 2008 |
|---|---------------|---------------|-----------------|
| | | (note 4) | (note 4) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 11,279,629 | \$ 18,317,842 | \$ (12,665,644) |
| Items not involving cash: | | | |
| Inventory obsolescence and write-offs | - | 27,436 | 25,223 |
| Fair value loss on investment | 138,495 | - | - |
| Loss (gain) on sale of investment | - | - | (1,652,310) |
| Amortization and accretion | 12,609,400 | 7,256,146 | 2,280,668 |
| Loss (gain) on sale of property and equipment | 47,517 | (158,062) | (721,109) |
| Interest income | (40,709) | (138,291) | (18,275) |
| Interest expense, net of reversal | 293,204 | 6,420,286 | 1,832,224 |
| Loss on debt extinguishment | 9,386,774 | - | - |
| Amortization of deferred financing costs | - | 936,703 | - |
| Pension expense | 768,336 | 34,577 | 266,462 |
| Unrealized foreign exchange loss (gain) | (155,420) | (1,681,787) | 4,909,152 |
| Stock based compensation | 462,881 | 1,054,350 | 122,959 |
| Operating income before working capital changes | 34,790,107 | 32,069,200 | (5,620,650) |
| Change in working capital (note 26) | (5,455,189) | (3,875,938) | (6,706,884) |
| Cash generated from operating activities | 29,334,918 | 28,193,262 | (12,327,534) |
| Interest received | 40,709 | 67,848 | 2,723 |
| Asset retirement obligation paid | (916,346) | (173,480) | (77,129) |
| Net loss from discontinued operations | - | - | (97,149) |
| Net cash from (used in) operating activities | 28,459,281 | 28,087,630 | (12,499,089) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Letter of credit facilities utilized (repaid) | 595,760 | (657,109) | 1,044,191 |
| Short-term loan facilities utilized | 10,576,435 | - | 24,779,960 |
| Long term loan utilized | - | - | 367,380 |
| Term facility repaid | (24,726,907) | (4,584,201) | - |
| Interest paid | (1,688,446) | (4,320,330) | (475,355) |
| Prepayment premium paid | (7,374,278) | - | - |
| Due from related parties | 148,211 | (314,038) | (458,592) |
| Proceeds from shares issued | 1,180,668 | 12,500 | - |
| Financing costs | (536,711) | - | - |
| Share issue cost | (3,619) | (18,311) | - |
| Net cash from (used in) financing activities | (21,828,887) | (9,881,489) | 25,257,584 |
| CASH FLOWS FROM INVESTING ACTIVITIES : | | | |
| Expenditure on note receivable | (1,317,500) | - | - |
| Expenditure on available-for-sale financial asset | (227,937) | - | - |
| Expenditure on investment in an associate | (1,482,500) | - | - |
| Change in restricted cash | (1,142,078) | 320,849 | (306,208) |
| Expenditures on property and equipment and deferred costs | (7,677,639) | (6,385,917) | (14,082,656) |
| Proceeds on disposal of property and equipment | 6,631 | 172,725 | 1,032,194 |
| Proceeds on disposal of investment | - | - | 1,942,491 |
| Realized foreign exchange in net investment | (41,730) | (6,006) | 226,868 |
| Net cash used in investing activities | (11,882,753) | (5,898,349) | (11,187,311) |
| Effect of foreign exchange rates on cash | 215,703 | (1,083,274) | 154,085 |
| Net increase (decrease) in cash and cash equivalents | (5,036,656) | 11,224,518 | 1,725,269 |
| Cash and cash equivalents at beginning of year | 13,978,620 | 2,754,102 | 1,028,833 |
| Cash and cash equivalents at end of year | \$ 8,941,964 | \$ 13,978,620 | \$ 2,754,102 |

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information and nature of operations:

TVI Pacific Inc. ("TVI") is a publicly listed company incorporated in Alberta, Canada on January 12, 1987 under the Alberta Business Corporation Act and its shares are listed on the Toronto Stock Exchange. The Company is a mining company focused on the acquisition, exploration, and development of polymetallic mineral deposits in the Philippines through its subsidiaries (collectively referred to as the "Company" or the "Group"). TVI is the ultimate parent company of the Group, whose interests in its Philippine assets are held through its operating affiliate, TVI Resource Development Phils., Inc. ("TVIRD"). The Company operated a commercial gold and silver mine from 2005 to April 2008. In March 2009, the Company declared commercial production of its current Canatuan sulphide project, which produces copper concentrates.

Exploration Drilling Corporation ("EDCO"), a wholly-owned subsidiary based in the Philippines, holds the Company's drilling assets.

TVI has established its principal business address at Suite 2000, 736-6th Avenue SW Calgary, Alberta, Canada T2P 3T7.

The consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2011.

2. Basis of preparation:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), as adopted by the Canadian Securities Administrators.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS wherein IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" has been applied. For all periods up to and including the year ended December 31, 2009, the Company previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The Company has adopted IFRS with an adoption date of January 1, 2010 and a transition date of January 1, 2008.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 4.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value (Note 5f). In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements are presented in Canadian Dollars which is the functional and reporting currency of TVI, except where otherwise indicated.

(c) Use of estimates and judgments

The preparation of timely financial statements necessitates the use of judgments, estimates and assumptions that will affect assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Estimates are made when transactions affecting the current accounting period cannot be finalized until future periods. Areas involving judgments in applying accounting policies that have significant effect on the amounts recognized in the consolidated financial statements include the basis for consolidation, impairment assessment, determination of functional currency, income taxes and contingencies.

2. Basis of preparation (continued):

Significant areas requiring the use of estimates include the reserve estimates and useful lives used to measure amortization of property and equipment, asset retirement obligations, fair value of financial instruments, accrued liabilities, assumptions used in the determination of fair value of stock-based compensation and pension obligations. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(d) Adoption of new and revised International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements.

At the date of authorization of these financial statements, the IASB has issued the following new and revise standards, amendment and interpretations which are not yet effective during the relevant periods.

Effective for annual periods beginning on or after January 1, 2011

- IAS 24 (Revised), Related Party Disclosures
- IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement

Effective for annual periods beginning on or after February 1, 2010

- IAS 32 (Amendment), Classification of Rights Issues

Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

- IFRSs (Amendments), Improvements to IFRSs issued in May 2010
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

Effective for annual periods beginning on or after January 1, 2013

- IFRS 9, Financial Instruments

None of these is expected to have a material effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the 2013 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

3. Significant accounting policies:

Subject to certain transition elections disclosed in note 4, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2008 for the purpose of the transition to IFRS, unless otherwise indicated.

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates that it controls as of the reporting date. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where there is loss of control of a subsidiary, or restructuring of the subsidiaries equity accounts, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

3. Significant accounting policies (continued):

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries TVI Limited, TVI International Marketing Limited ("TVI Marketing"), EDCO and TVI Minerals Processing Inc. ("TVI Minerals"), including its interest in TVIRD and nineteen inactive Philippine subsidiaries, which are controlled by the Company, as it has the ability to govern the financial and operating policies of the subsidiaries and obtain benefits from their activities.

Of the issued and outstanding shares of each of the nineteen inactive Philippine subsidiaries, 40% are owned by TVI Marketing and 60% are owned by TVIRD. TVIRD shares are owned 40% by TVI Marketing with the remaining 60% owned by Philippine residents or companies.

Non-controlling interests in less than wholly-owned subsidiaries of the Company comprise the interest held by the Philippine residents or companies and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Company's equity. Losses applicable to the non-controlling interest in excess of their interest in the subsidiaries' equity are allocated against the non-controlling interest even if that results in a deficit balance.

All intercompany balances and transactions have been eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(ii) Associate

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's share of its associates' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate

(b) Cash

Cash is carried at face amount or at nominal amount in the consolidated statement of financial position and includes cash on hand and deposits held at call with banks.

(c) Environmental trust funds

Regular contributions are made to the Company's trust funds, created in accordance with statutory requirements, to fund the estimated cost of pollution control, rehabilitation and mine closure at the end of the life of the Company's mines. Contributions are determined on the basis of the estimated environmental obligation over the life of the mine. Income earned from environmental trust funds deposited in banks is accounted for as interest income. The deposits in trust funds are included under restricted cash in the consolidated statement of financial position.

(d) Inventories

Inventories are stated at the lower of their cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete and applicable variable selling expenses. Inventories consist of consumable drilling parts, drilling supplies, and mineral processing supplies valued using the moving average method with provision for obsolete and slow-moving items; and finished products, and stockpile ore recorded based on a first in first out method.

For finished goods, all direct production costs and related production overheads are included in determining the cost. Stockpiled ore inventory includes the cost of extraction and hauling.

3. Significant accounting policies (continued):

(e) Mining claims and exploration costs

The Company expenses all exploration costs as incurred until it determines that the exploration property is capable of achieving commercial production at which time all further pre-production costs are capitalized at cost. Such costs include acquisition, exploration, operating, other related costs and administration expenditures net of any mineral revenues received. When a property is brought into production, the costs will be amortized using the unit-of-production method based on that property's estimated ore reserves. If a property is abandoned, capitalized costs are charged to operations in the year of abandonment. The Company has capitalized interest relating to the Sulphide project.

The Company classifies mining claims and deferred exploration costs as tangible or intangible according to the nature of the asset acquired or cost incurred and applies the classification consistently. Certain deferred exploration costs are treated as intangible (e.g. license and legal fees), whereas others are tangible (e.g. vehicles). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset.

Mining claims and deferred exploration costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

(f) Property, equipment, and depreciation

Property and equipment are recorded at cost less subsequent depreciation and impairment. Costs include the amount of consideration given up to acquire, construct, develop, or better an item of property and equipment and include all costs directly attributable to the acquisition, construction, development or betterment of the asset.

The costs of construction-in-progress are accumulated in the accounts until the project is completed and put into operational use upon which they are classified to the appropriate property accounts and depreciated accordingly. Construction-in-progress is stated at cost, which includes cost of construction, equipment and other direct costs.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Mine development costs are deferred until the property is brought into commercial production, at which time the costs are amortized using the unit-of-production method based on that property's estimated ore reserves. The deferral of expenditures cease when a facility commences commercial operations. If a property is abandoned, previously capitalized costs are charged to operations in the year of abandonment. The Company has capitalized interest and borrowing costs relating to the construction of the Canatuan sulphide plant.

3. Significant accounting policies (continued):

Depreciation of these assets is provided at rates designed to amortize their cost over their estimated useful lives:

| | Method | Years |
|---|--------------------|------------------------|
| Canatuan sulphide plant: | | |
| Property and equipment | Unit-of-production | Estimated ore reserves |
| Sulphide dam | Unit-of-production | Estimated ore reserves |
| Drilling and other assets: | | |
| Buildings and leasehold improvements | Straight-line | 5 years |
| Communication and computer equipment, office furniture and equipment | Straight-line | 2-5 years |
| Transportation equipment | Straight-line | 5 years |
| Field and geological equipment | Straight-line | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

(g) Impairment of long-lived assets

The Company evaluates the property and equipment for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. In assessing whether there is any indication that an asset may be impaired, the Company considers factors such as significant decline in market value, significant changes in market, economic or legal environment, evidence of obsolescence or physical damage, significant changes in the manner the asset is used, among others. An impairment loss is recognized for the amount by which the asset's carrying amount 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Assets that do not generate cash inflows largely independent of those from other groups of assets are being combined with all other assets to form an asset group for impairment assessment. Value in use requires entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset.

Judgments and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment.

(h) Defined benefit plan

The employees in the Philippine subsidiaries of the Company are entitled to a defined benefit plan that defines an amount of pension benefit that the employee will receive upon retirement, usually dependent on one or more factors, such as age, years of service, and compensation. The liability recognized is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related pension liability.

3. Significant accounting policies (continued):

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(i) Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of the Philippine subsidiaries are translated into Canadian dollars from the functional currencies using period-end exchange rates, with revenues and expenses translated using average rates for the period. Unrealized gains and losses arising on the translation of these operations are included in the foreign currency translation adjustment within other comprehensive income.

When a foreign operation is disposed of, the relevant amount of the cumulative translation adjustment within other comprehensive income is transferred to net income as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to net income.

(j) Revenue recognition

(i) Sale of precious metals

Revenues from commercial mineral operations are recorded when title passes on the sale and delivery of gold and silver from the Canatuan gossan plant to the refiner, and copper concentrates from the Canatuan sulphide plant to the ship's rail. Revenues from copper concentrates are recorded based on either provisional prices or basis fixed prices. The Company does not engage in forward selling or hedging of mineral production.

(ii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues accreting the discount as interest income.

(iii) Other revenue

Other revenue is recognized when earned or realized

3. Significant accounting policies (continued):

(k) Share option plan

The Company applies the fair value method, using the Black-Scholes option pricing model, when stock options are granted to employees and directors under the share option plan. Under this method, compensation expense of stock options, measured at the grant date, is recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The effects of forfeitures are estimated on initial measurement with subsequent adjustments so that the expense reflects what has actually vested in the period.

(l) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Borrowings are derecognized when it is extinguished, that is, when the obligation is discharged, cancelled or expired. Any substantial modification to the terms of the loan are accounted as an extinguishment of the original liability and recognition of a new liability

Borrowing costs incurred for the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(m) Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of income on a straight-line basis over the period of the lease.

(n) Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

3. Significant accounting policies (continued):

(o) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability. The increase in provision due to passage of time is recognized as amortization expense.

The fair value of asset retirement obligations ("ARO") associated with the retirement of long-lived assets is recognized as liabilities in the period when they can be reasonably determined. The fair value approximates the cost a third party would charge in performing the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows using a discount factor that reflects the risk-free rate of interest. ARO's are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The estimates of the timing and amounts of expected cash flows are prepared when an ARO is incurred, which are updated to reflect changes in facts and circumstances. The Company's estimates of retirement costs could change as a result of changes in cost estimates and regulatory requirements.

(p) Per share amounts

Net income (loss) per common share is computed by dividing net income (loss) attributable to shareholders of the Company by the weighted average number of common shares outstanding for the year.

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(q) Segment reporting

An operating segment is a component that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

3. Significant accounting policies (continued):

(r) *Discontinued operations*

Results of operations and cash flows are classified as “discontinued operations held for sale” if they are attributable to a distinguishable area that will not be part of ongoing operations as a result of expected sales transactions. To be considered an expected transaction, management must have a plan to sell, an active program to locate buyers, and the assets must be available for sale at a marketable price in their present condition subject to usual and customary sale terms.

The results of discontinued operations are classified separately net of applicable income taxes. Current and non-current assets and liabilities of discontinued operations held for sale are assessed at the time of discontinuation at the lower of their carrying amount or fair value less sales transaction costs.

(s) *Financial instruments and other comprehensive income*

Financial instruments

The Company classifies its financial assets in the following categories: (a) at fair value through profit or loss, (b) loans and receivables, (c) held-to-maturity investments and (d) available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The Company did not hold any financial assets under category (c).

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Financial assets available-for-sale are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

Cash is comprised of cash balances and call deposits with original maturities of three months or less. Cash, restricted cash, accounts receivable, and advances to suppliers with fixed or determinable payments that are not quoted in an active market are designated as “loans and receivables”. The convertible note is classified as financial asset at fair value through profit or loss while the investment in money market instruments is classified as available-for-sale financial asset. Accounts payable and accrued liabilities, short-term debt, long-term liabilities and due to related parties are designated as “other financial liabilities”.

Initial recognition, subsequent measurement and derecognition

Regular-way purchases and sales of financial assets are recognized on trade-date (the date on which the Company commits to purchase or sell the asset). All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are measured at fair value with changes in those fair values recognized in net income. Financial assets “held-to maturity”, “loans and receivables” and “other financial liabilities” are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these are measured at amortized cost using the effective interest rate method of amortization, net of any impairment. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. The methods used by the Company in determining fair value of financial instruments are unchanged during the year.

3. Significant accounting policies (continued):

For financial assets and financial liabilities that are not classified as financial asset at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to the fair value initially recognized for that financial instrument. These costs are expensed to earnings using the effective interest rate method.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Impairment

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Risk management

The financial instruments standard establishes the presentation of financial instruments and non-financial derivatives and classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The Company discloses the nature and extent of risks associated with financial instruments and how these risks are managed.

Comprehensive income

The Company's consolidated financial statements include a consolidated statement of comprehensive income, which includes net income and other comprehensive income. The Company's other comprehensive income is currently comprised of the changes in the foreign currency translation adjustment of foreign operations and unrealized changes in the fair market values of financial instruments.

The cumulative changes in other comprehensive income are summarized in the consolidated statements of changes in equity. Accumulated other comprehensive income is presented as a category within shareholders' equity in the consolidated statement of financial position.

(t) Capital disclosures

The Company discloses information regarding the Company's capital and how it is managed. The Company discloses the objective, policies, and processes for managing capital and quantitative disclosure about what the Company regards as capital.

(u) Accounting changes

Accounting changes are applied retrospectively unless otherwise permitted or required by the transitional provisions of IFRS or where impracticable to determine. As well, voluntary changes in accounting policy are made only when the change results in more relevant and reliable information.

(v) Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the presentation adopted for the current year.

| | December 31, 2009 | December 31, 2008 | January 1, 2008 |
|--|-------------------|-------------------|-----------------|
| From accounts receivable to due to related parties | \$ (20,709) | \$ - | \$ - |
| From other assets to restricted cash | - | 134,187 | 121,919 |
| From accounts receivable to advances to suppliers | - | - | 59,683 |

3. Significant accounting policies (continued):

(w) Events after the reporting date

Events after the reporting date are evaluated up to the date the financial statements are authorized for issue. Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. First time adoption of IFRS:

(a) Transition to IFRS

The Company adopted IFRS on January 1, 2010 with a transition date of January 1, 2008. Under IFRS 1, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities stated under GAAP taken to retained earnings unless certain exemptions are applied.

The Philippine subsidiaries have adopted Philippines Financial Reporting Standards ("PFRS") in 2005 as required under local statutory reporting purposes. PFRS have converged with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2010, the comparative information presented in these financial statements and in the preparation of an opening IFRS consolidated statement of financial position at the Company's date of transition.

(b) Initial elections upon adoption

The Company has applied the following mandatory exceptions in accordance with IFRS 1:

(i) Non-controlling Interests

The exception stipulates that a first-time adopter should prospectively apply from the date of transition to IFRS, the requirement of IAS 27 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. The Company adopted the exception and follows the IAS 27 requirements prospectively.

(ii) Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

The Company has applied the following exemption options in accordance with IFRS 1:

(i) Business combinations

IFRS 1 permits companies to apply IFRS 3 Business Combinations ("IFRS 3") prospectively to business combinations occurring on or after the transition date. The Company elected to use the business combinations exemption and adopted IFRS 3 prospectively beginning on the transition date.

4. First time adoption of IFRS (continued):

(ii) Borrowing costs

IFRS 1 permits entities to apply IAS 23 Borrowing Costs (“IAS 23”) prospectively from the transition date. The alternative to this election would be to retrospectively restate borrowing costs previously capitalized to comply with IFRS requirements in addition to capitalizing borrowing costs in accordance with IFRS prospectively from the Company’s transition date. The Company elected to apply the standard prospectively.

(iii) Share-based payment transactions

A first-time adopter can utilize the exemption from retrospective application of IFRS 2 for equity instruments that were granted after November 7, 2002, and that vested before the later of (a) the date of transition and (b) January 1, 2005. The Company has elected the exemption and has applied IFRS 2 prospectively from the transition date, for stock options granted after November 7, 2002 and unvested at the date of transition.

(iv) Employee future benefits

IFRS 1 allows that a first-time adopter may disclose certain employee benefit amounts as they are determined for each accounting period prospectively from the transition date, instead of presenting for the current annual period and the previous four annual periods. The Company has used this exemption.

(v) Decommissioning liabilities

IFRS 1 requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS.

(vi) Compound financial instruments

A first-time adopter need not retrospectively apply the requirement of IAS 32 that involves separating a compound financial instrument at inception into separate liability and equity components if the liability component is no longer outstanding at the date of transition to IFRS. The Company has elected this exemption.

(vii) Investments in subsidiaries, jointly controlled entities and associates

A first-time adopter that measures an investment at cost is permitted to measure the investment either at cost determined in accordance with IAS 27 or at deemed cost. The deemed cost of an investment for this purpose is either its fair value at the date of transition in the entity’s separate financial statements, or the previous GAAP carrying amount at the date of transition in the entity’s separate financial statements. The Company has elected this exemption and measures investment at the carrying amount at the date of transition.

4. First time adoption of IFRS (continued):

(c) Reconciliations

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. The adoption resulted in changes to the reported financial position and results of operations of the Group, which have resulted in reclassifications of various amounts on the consolidated cash flows. In order to allow the users of the financial statements to better understand these changes, the Company has provided the reconciliations between Canadian GAAP and IFRS for the assets, liabilities and shareholder's equity, total comprehensive loss and statement of cash flows.

| | Previous GAAP | | Effect of IFRS Adoption | | IFRS |
|--|-----------------|----|----------------------------|----|--------------|
| As at January 1, 2008: | | | | | |
| Total assets | \$ 23,390,643 | \$ | - | \$ | 23,390,643 |
| Total liabilities | \$ 20,059,813 | \$ | - | \$ | 20,059,813 |
| Equity attributable to shareholders of the Company | | | | | |
| Share capital | 21,017,205 | | - | | 21,017,205 |
| Contributed surplus (note 4c (ii)) | 3,592,382 | | (85,186) | | 3,507,196 |
| Deficit (note 4c (ii)) | (18,269,703) | | 85,186 | | (18,184,517) |
| Accumulated other comprehensive loss | (3,009,054) | | - | | (3,009,054) |
| Total liabilities and equity | \$ 23,390,643 | \$ | - | \$ | 23,390,643 |
| For the year ended December 31, 2007: | | | | | |
| Revenue | \$ 34,356,699 | \$ | - | \$ | 34,356,699 |
| Expenses (note 4c (ii)) | (43,658,742) | | 85,186 | | (43,573,556) |
| Loss from discontinued operations | (1,737,099) | | - | | (1,737,099) |
| Net income | (11,039,142) | | 85,186 | | (10,953,956) |
| Other comprehensive income (loss) | | | | | |
| Change in fair value of investments | (57) | | 57 | | - |
| Foreign currency translation adjustment | 93,043 | | - | | 93,043 |
| Comprehensive loss | \$ (10,946,156) | \$ | 85,243 | \$ | (10,860,913) |

4. First time adoption of IFRS (continued):

| | Previous GAAP | Effect of IFRS Adoption | IFRS |
|--|-----------------------|----------------------------|-----------------------|
| As at December 31, 2008: | | | |
| Cash and cash equivalents | \$ 2,754,102 | \$ - | \$ 2,754,102 |
| Accounts receivables (note 4c (iii)) | 931,328 | 2,100,000 | 3,031,328 |
| Advances to suppliers | 100,271 | - | 100,271 |
| Inventories | 2,373,803 | - | 2,373,803 |
| Prepaid expenses | 267,260 | - | 267,260 |
| Non-current assets | 33,247,255 | - | 33,247,255 |
| Total assets | \$ 39,674,019 | \$ 2,100,000 | \$ 41,774,019 |
| Accounts payable and accrued liabilities (note 4c (iii)) | \$ 7,322,685 | \$ 2,100,000 | \$ 9,422,685 |
| Other current liabilities (note 4c (iv)) | 8,029,063 | 27,623,417 | 35,652,480 |
| Non-current liabilities (note 4c (iv)) | 30,719,059 | (27,623,417) | 3,095,642 |
| Equity attributable to shareholders of the Company: | | | |
| Share capital | 21,017,205 | - | 21,017,205 |
| Contributed surplus (note 4c (ii)) | 3,666,827 | (36,672) | 3,630,155 |
| Deficit | (30,983,982) | 4,454,961 | (26,529,021) |
| Accumulated other comprehensive loss | (96,838) | - | (96,838) |
| Non-controlling interest (note 4c (i)) | - | (4,418,289) | (4,418,289) |
| Total liabilities and equity | \$ 39,674,019 | \$ 2,100,000 | \$ 41,774,019 |
| For the year ended December 31, 2008: | | | |
| Revenue | \$ 5,954,489 | \$ - | \$ 5,954,489 |
| Expenses (note 4c (ii)) | (12,279,459) | (48,514) | (12,327,973) |
| Other expenses | (6,292,160) | - | (6,292,160) |
| Loss from discontinued operations | (97,149) | - | (97,149) |
| Net loss | (12,714,279) | (48,514) | (12,762,793) |
| Other comprehensive income (loss) | | | |
| Deemed realization of cumulative foreign currency translation (note 4c (i)) | 3,256,770 | (707,147) | 2,549,623 |
| Foreign currency translation adjustment (note 4c (i)) | (344,554) | 707,147 | 362,593 |
| Comprehensive loss | \$ (9,802,063) | \$ (48,514) | \$ (9,850,577) |
| Cash flow from operating activities | \$ (13,605,971) | \$ 1,106,882 | \$ (12,499,089) |
| Cash flow from financing activities | 27,919,196 | (2,661,612) | 25,257,584 |
| Cash flow from investing activities | (12,742,041) | 1,554,730 | (11,187,311) |
| Effect of foreign exchange rates on cash | 154,085 | - | 154,085 |
| Net increase in cash | \$ 1,725,269 | \$ - | \$ 1,725,269 |

4. First time adoption of IFRS (continued):

| | Previous GAAP | Effect of Adoption of IFRS | IFRS |
|---|---------------|-------------------------------|---------------|
| As at December 31, 2009: | | | |
| Total assets | \$ 50,207,355 | \$ - | \$ 50,207,355 |
| Total liabilities | \$ 34,670,763 | \$ - | \$ 34,670,763 |
| Equity attributable to shareholders of the Company: | | | |
| Share capital | 22,004,269 | - | 22,004,269 |
| Warrants | 2,403,496 | - | 2,403,496 |
| Contributed surplus (note 4c (ii)) | 4,708,982 | (32,169) | 4,676,813 |
| Deficit | (12,661,637) | (5,025,486) | (17,687,123) |
| Accumulated other comprehensive loss (note 4c (i)) | (918,518) | (597,673) | (1,516,191) |
| Non-controlling interest (note 4c (i)) | - | 5,655,328 | 5,655,328 |
| Total liabilities and equity | \$ 50,207,355 | \$ - | \$ 50,207,355 |
| For the year ended December 31, 2009: | | | |
| Revenue | \$ 66,964,817 | \$ - | \$ 66,964,817 |
| Expenses (note 4c (ii)) | (41,326,300) | (4,503) | (41,330,803) |
| Other expenses | (7,316,172) | - | (7,316,172) |
| Net income | 18,322,345 | (4,503) | 18,317,842 |
| Other comprehensive income (loss) | | | |
| Deemed realization of cumulative foreign currency translation | 96,838 | - | 96,838 |
| Foreign currency translation adjustment | (918,518) | - | (918,518) |
| Comprehensive income | \$ 17,500,665 | \$ (4,503) | \$ 17,496,162 |
| Cash flow from operating activities | \$ 21,661,992 | \$ 6,425,638 | \$ 28,087,630 |
| Cash flow from financing activities | (2,651,363) | (7,230,126) | (9,881,489) |
| Cash flow from investing activities | (6,702,837) | 804,488 | (5,898,349) |
| Effect of foreign exchange rates on cash | (1,083,274) | - | (1,083,274) |
| Net increase in cash | \$ 11,224,518 | \$ - | \$ 11,224,518 |

(i) Reclassification of non-controlling interests:

Under Canadian GAAP – Where losses applicable to the non-controlling interest in a subsidiary exceed the non-controlling interest in the common shares of the subsidiary, the excess and any further losses applicable to the non-controlling interest should be allocated only to the parent's interest. Subsequent earnings should be allocated entirely to the parent's interest until such previously absorbed losses are recovered.

Under IFRS - total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Starting from the transition date of January 1, 2008, the total comprehensive income or loss shall be attributed to the shareholders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. First time adoption of IFRS (continued):

(ii) Share based compensation:

Under Canadian GAAP – an entity can elect to treat the equity instruments as a pool and determine fair value using an average life of the instruments. An entity can also choose to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of actual forfeitures as they occur.

Under IFRS - when a share-based payment award vests in installments over the vesting period (graded vesting), each installment is accounted for as a separate arrangement. In addition, estimates of the number of equity-settled instruments that are expected to vest are adjusted to the actual number that vest unless forfeitures are due to market-based conditions.

(iii) Provision and receivable from legal claim:

Under Canadian GAAP – A provision is recognized if it is likely that a future event will confirm that a liability has been incurred and a reasonable estimate can be made of the amounts involved, like IFRSs. However, unlike IFRSs, the term “likely” in this context is a higher recognition threshold than “more likely than not”.

Under IFRS - A provision is recognized when: (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. “Probable” in this context means “more likely than not”. Based on the settlement subsequently made, the liability for the claim and the corresponding receivable from insurance company amounting to \$2,100,000 were recorded in the December 31, 2008 financial statements (note 18).

(iv) Post-reporting date refinancing:

Under Canadian GAAP – A short-term obligation should be excluded from current liabilities only if the debtor intends to refinance the obligation on a long-term basis and such intent is supported by an ability to consummate the refinancing demonstrated. The short-term loan facility which was converted to term loan in 2009 was presented under non-current liabilities in the December 31, 2008 statement of financial position, except for the portion of principal expected to be repaid within the next twelve months.

Under IFRS - A financial liability is classified as current when they are due to be settled within twelve months after the reporting date, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. Therefore, the short-term loan facility was classified under current liabilities in the December 31, 2008 statement of financial position.

(v) Reclassification to the statement of cash flows:

The adoption of IFRS has had no impact on the net cash flows of the Company. The adjustments from Canadian GAAP to IFRS resulted from adjustments to share based compensation, provision and receivable from legal claim. There were also reclassifications within the statement of cash flows. Under Canadian GAAP, interests received and paid were only presented as supplemental cash flow information. Under IFRS, cash flows relating to interest income and expense are presented in the statement of cash flows.

5. Financial risk management:

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk and price risk), interest rate risk, liquidity risk, and credit risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance. The Board of Directors has the overall responsibility for the establishment and oversight of the Company’s risk management framework.

5. Financial Risk Management (continued):

(a) Currency risk

The Company faces currency risks mainly due to the substantial cross-border element of its operations. The Company has offices in Canada (Canadian dollar) and in the Republic of the Philippines (Peso). The Company sells its mineral deposits at prevailing market prices in the US dollar currency. In addition, the company borrows money and settles loans in the US dollar currency. Upon receipt, the Company converts these funds into the functional currencies of individual entities to finance operational and administrative expenses. There are no forward sales, and the Company does not engage in currency hedging activities.

The Company minimizes risks by carefully planning the timing of settlement of foreign currency denominated balances and closely monitoring changes in foreign exchange rates.

The following are the pro forma impact on net income if the Philippine peso moved by 5% against the US dollar currency, with all other variables held constant, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash, trade receivables and loans.

| | Impact on income |
|-------------------|-------------------------|
| December 31, 2010 | \$ 41,925 |
| December 31, 2009 | 580,498 |
| December 31, 2008 | 483,495 |

The following significant exchange rates applied during the current and prior year:

| | 2010 | Average rate 2009 | 2008 | 2010 | Spot rate 2009 | 2008 |
|-----------------|-------------|------------------------------|-------------|-------------|---------------------------|-------------|
| US Dollar | 1.0299 | 1.1420 | 1.0660 | 0.9946 | 1.0466 | 1.2246 |
| Philippine Peso | 0.02285 | 0.0240 | 0.0240 | 0.02279 | 0.0225 | 0.0256 |

(b) Price risk

The Company is exposed to commodity price risk from the production and sale of mineral deposits, which are sold at prevailing market prices. There are no forward sales contracts and the Company does not engage in price hedging activities.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are independent of changes in market interest rates. The Company has exposure to fair value interest rate risk since its borrowings have fixed interest terms, regardless of changes in market conditions. The Company reviews its exposure to interest rate risk through regular monitoring of actual interests with market interest rates.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by keeping committed credit lines with major vendors. The Company expects to be able to meet its future financial obligations with its current source of funds.

As at December 31, 2010, 2009 and 2008 the Company has a \$6.4 million working capital surplus, \$7.7 million working capital surplus, and \$36.5 million working capital deficit, respectively.

5. Financial Risk Management (continued):

The following are the contractual maturities of financial obligations.

| | Due within 12 months | Due between 13 to 60 months |
|--|-------------------------|--------------------------------|
| As at December 31, 2008 | | |
| Accounts payable and accrued liabilities | \$ 9,422,685 | \$ - |
| Letter of credit facilities | 1,069,393 | |
| Loan payable | 31,436,051 | 367,380 |
| Due to related parties | 1,789,249 | 591,834 |
| | \$ 43,717,378 | \$ 959,214 |
| As at December 31, 2009 | | |
| Accounts payable and accrued liabilities | \$ 5,494,263 | \$ - |
| Letter of credit facilities | 323,751 | |
| Loan payable | 7,477,095 | 16,846,305 |
| Due to related parties | 1,209,111 | - |
| | \$ 14,504,220 | \$ 16,846,305 |
| As at December 31, 2010 | | |
| Accounts payable and accrued liabilities | \$ 5,963,010 | \$ - |
| Letter of credit facilities | 922,491 | |
| Loan payable | 10,499,759 | - |
| Due to related parties | 343,151 | - |
| | \$ 17,728,411 | \$ - |

The Company has the following loan payable and loans from related parties at fixed interest rates.

| | Principal outstanding | Interest outstanding | Effective annual interest rate | Interest expense | Maturity date |
|-----------------------------|--------------------------|-------------------------|-----------------------------------|---------------------|------------------------|
| December 31, 2008 | | | | | |
| Short term facility | 31,247,227 | 188,824 | 14% | 2,082,186 | February 6, 2009 |
| Letter of credit facilities | 1,069,393 | - | 8.75% to 9.25% | 17,426 | March to April 2009 |
| Related party loan A | 1,069,778 | 5,612 | 12% | 144,309 | Demand |
| Related party loan B | 918,450 | 4,819 | 14.12% | 115,377 | Demand |
| December 31, 2009 | | | | | |
| Term facility | 25,242,666 | 1,867,614 | 25.96% | 5,937,535 | January 20, 2014 |
| Letter of credit facilities | 323,751 | - | 8.75% | 158,804 | January to May 2010 |
| Related party loan A | 465,269 | 14,073 | 12% | 86,743 | Demand |
| Related party loan B | 451,745 | 13,666 | 14.12% | 86,004 | Demand |
| December 31, 2010 | | | | | |
| Letter of credit facilities | 922,491 | - | 4.00% to 8.25% | 70,578 | January to June 2011 |
| Short-term loan facilities | 10,492,389 | 7,370 | 1.375% to 2.30% | 255,021 | April to December 2011 |

5. Financial Risk Management (continued):

(e) Credit risk

Credit risk arises from the potential that counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalent, restricted cash and accounts receivable. The Company manages credit risk associated with cash by maintaining its cash and investments in accounts with highly reputable banks, which were approved by the Board of Directors.

The following are the components of the receivables:

| | 2010 | 2009 | 2008 |
|-----------------------------------|------|------|------|
| Receivable from concentrate sales | 93% | 81% | - |
| Receivable from sale of assets | - | 12% | 24% |
| Receivable from insurer | - | - | 69% |
| Other receivables | 7% | 7% | 7% |
| | 100% | 100% | 100% |

The receivable from concentrate sales are concentrated on one customer and any material failure of the customer to fulfill its obligation under the off-take agreement would significantly impair the ability of the Company to meet its existing and future obligations. Such receivable is on the terms operating in the commodity industry, which usually require settlement not exceeding three months of the shipment date. The customer has no history of default and the Company did not provide allowance for impairment as these receivables are considered highly collectible. In the first quarter of 2011, 83% of the receivables at December 31, 2010 related to concentrate sales were collected.

The carrying amounts of cash and accounts receivable at December 31, 2010, 2009 and 2008 represent the Company's maximum credit exposure. The Company is not significantly exposed to credit risk arising from trade receivable as these receivables are highly collectible.

The Company only deals with its related parties who have appropriate credit history to mitigate credit risk. For other financial assets, the Company adopts the policy of dealing only with high credit quality counterparts. As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instrument is the carrying amount of that class of financial instruments presented in the consolidated statement of financial position.

(f) Fair values of financial assets and financial liabilities

The analysis of financial instruments that are measured subsequent to initial recognition at fair value can be classified into Levels 1 to 3 based on the degree to which fair value is observable.

- *Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.*
- *Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)*
- *Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).*

The available-for-sale amounting to \$0.2 million as of December 31, 2010 was classified under Level 1 while the note receivable amounting to \$1.2 million as of December 31, 2010 was classified under Level 2 of the fair value hierarchy. The Company has no other financial assets and liabilities under Level 3 of the fair value hierarchy as of December 31, 2010.

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalent, restricted cash, accounts receivable, advances to suppliers, accounts payable and accrued liabilities, letter of credit facilities, short-term loan facilities, and due to related parties approximate their fair values at December 31, 2010 due to their short term nature. The Company's investment also approximates its fair value at December 31, 2010 as it is recorded at market value.

5. Financial Risk Management (continued):

(g) Sales and purchase contracts

Metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of the final settlement. Adjustments to the balance of concentrate receivables from changes in underlying market prices affect revenue or operating costs as appropriate.

(h) Capital risk management

The Company defines its capital as shareholders' equity and loans payable. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns and benefits to shareholders. In order to provide return to shareholders, the Company must profitably mine mineral deposits while reducing its operating costs of the Canatuan plant. In addition, the Company must explore, develop, and invest in other viable properties in order to sustain future operations of the Company.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the issuance of new shares, the issuance of new debt, or the issuance of new debt to replace existing debt with different characteristics.

The Company does not have externally imposed capital requirements. Consistently with other capital intensive companies, the Company monitors capital on the basis of the debt-to-equity ratio and the debt-to-assets ratio. Debt is calculated as the sum of accounts payable and accrued liabilities, letter of credit facilities, short-term loan facilities, term facility, and due to related parties. Equity comprises all share capital, warrants, contributed surplus and deficit. Assets are defined as cash, accounts receivable, note receivable, advances to suppliers, inventories, restricted cash, available for sale investment, and property and equipment, and mining claims and deferred exploration costs. The Company's strategy was to improve the debt to equity ratio in order to secure access to finance at a reasonable cost by maintaining a good credit rating. The decrease in the ratio during 2010 resulted primarily from the Company's continuing profitability and full payment of the term facility.

| | 2010 | 2009 | 2008 |
|----------------|---------------|---------------|---------------|
| Debt | \$ 17,728,411 | \$ 31,350,525 | \$ 44,676,592 |
| Equity | 29,513,356 | 11,397,455 | (1,881,661) |
| Assets | 51,330,969 | 49,781,394 | 41,506,759 |
| Debt-to-equity | 0.60 | 2.75 | (23.74) |
| Debt-to-assets | 0.35 | 0.63 | 1.08 |

6. Cash:

Cash consists of the following:

| | 2010 | 2009 | 2008 |
|-----------------------|--------------|---------------|--------------|
| Cash on hand | \$ 42,248 | \$ 21,285 | \$ 43,383 |
| Cash in bank | 4,401,645 | 13,957,335 | 2,710,719 |
| Short term placements | 4,498,071 | - | - |
| | \$ 8,941,964 | \$ 13,978,620 | \$ 2,754,102 |

Cash in banks earns interest at the prevailing bank deposit rates. The carrying amount of cash approximates its fair value.

6. Cash (continued):

Cash is denominated in the following currencies:

| | 2010 | 2009 | 2008 |
|------------------|--------------|---------------|--------------|
| Canadian Dollars | \$ 1,162,146 | \$ 24,873 | \$ 69,547 |
| US Dollars | 6,471,696 | 13,079,713 | 2,228,760 |
| Philippine peso | 1,308,122 | 874,034 | 455,795 |
| | \$ 8,941,964 | \$ 13,978,620 | \$ 2,754,102 |

7. Accounts receivable:

| | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|
| Receivable from concentrate sales | \$ 5,615,276 | \$ 4,146,280 | \$ - |
| Receivable from sale of assets | - | 627,960 | 734,760 |
| Receivable from insurer (note 4 (c) (iii)) | - | - | 2,100,000 |
| Other receivables | 401,666 | 313,423 | 196,568 |
| | \$ 6,016,942 | \$ 5,087,663 | \$ 3,031,328 |

The sale agreement of the drilling assets to a third party was rescinded in September 2010 due to the non-fulfillment of the contract conditions on the part of the third party. The Company repossessed the assets as full settlement of the receivable from sale of asset. The drilling assets left the yard of the third party in December 2010 and are expected to arrive to the Philippines by the last week of March 2011. The gain on repossession of assets was \$30,562 which was recorded under other losses (gains).

8. Note receivable:

On December 31, 2010, TVI acquired a \$1,317,500 principal amount promissory note in connection with the acquisition of an investment (note 14). The note is payable on demand and bearing interest of 12% per annum in excess of the prime lending rate for Canadian dollar loans. The note may be converted at the option of the Company into common shares of TG World Energy Corp. ("TG World"), at a conversion price of \$0.05 per Share, in certain circumstances as indicated in the loan agreement, on or prior to December 31, 2015. Under the terms of the note, the conversion price of the note will be increased to \$0.10 per share if conversion is undertaken in certain circumstances as indicated in the loan agreement. Under the terms of the note, accrued interest and certain other amounts that may become owing to TVI are also convertible into common shares of the Issuer. The Company recognized a loss on change in fair value of the financial asset amounting to \$138,495 recorded under other gains (losses).

9. Advances to suppliers:

The account is mostly comprised of advance payments to suppliers during each year for various materials and equipment being used in the Sulphide plant operations, particularly on importations.

10. Inventories:

| | 2010 | 2009 | 2008 |
|---|--------------|--------------|--------------|
| At cost | | | |
| Finished goods | \$ 3,454,252 | \$ 733,026 | \$ 942,070 |
| Stockpiled ore | 39,373 | 21,359 | 8,579 |
| Consumable drilling parts and supplies | 820,556 | 379,276 | 570,380 |
| Mineral processing supplies | 2,966,027 | 1,584,318 | 981,827 |
| | 7,280,208 | 2,717,979 | 2,502,856 |
| Less allowance for inventory obsolescence | (140,897) | (139,025) | (129,053) |
| | \$ 7,139,311 | \$ 2,578,954 | \$ 2,373,803 |

10. Inventories (continued):

During the year ended December 31, 2010, the Company recognized \$9,841,536 (2009 - \$10,210,946 and 2008 - \$2,426,644) of inventory as expense under Mining, milling, drilling, and other expenses. These expenses include materials and supplies and direct finished good costs.

Details of allowance for inventory obsolescence relating to mine and mill materials and supplies are as follows:

| | 2010 | | 2009 | | 2008 |
|--|------------|----|---------|----|---------|
| Beginning balance | \$ 139,025 | \$ | 129,053 | \$ | 94,500 |
| Provision and foreign currency translation | 1,872 | | 9,972 | | 34,553 |
| End balance | \$ 140,897 | \$ | 139,025 | \$ | 129,053 |

11. Discontinued operations:

During the fourth quarter of 2007, in an attempt to reduce ongoing operating costs and monetize non-core assets, the Company made efforts to solicit the sale of the operations and assets held in Tiamut International Limited and Hunan Pacific Geological Exploration Inc., both wholly owned subsidiaries of the Company. On February 29, 2008, the Company sold 100% share ownership of its Chinese subsidiaries (note 12).

Assets and liabilities of the discontinued operations are valued at cost, which is less than their estimated fair value less cost to sell:

| | January 1, 2008 | |
|--|-----------------|---------|
| Cash and cash equivalents | \$ | 35,081 |
| Accounts receivable | | 14,267 |
| Inventory | | 414,763 |
| Prepaid expenses | | 12,543 |
| Property and equipment | | 288,100 |
| | | 764,754 |
| Accounts payable and accrued liabilities | \$ | 477,281 |

Loss from discontinued operations includes the following amounts:

| | 2008 | |
|---|------|----------|
| Revenues: | | |
| Sales | \$ | 34,459 |
| Interest income | | - |
| | | 34,459 |
| Expenses: | | |
| Mining, milling, drilling, and selling expenses | | 61,079 |
| Exploration costs | | 56,743 |
| Amortization and accretion | | - |
| Foreign exchange loss | | 10 |
| Administrative and general costs | | 13,776 |
| | | 131,608 |
| Loss from discontinued operations | \$ | (97,149) |

12. Restricted cash:

- (a) At December 31, 2010, 2009 and 2008, the Company holds \$1,260,660, \$118,582 and \$134,187, respectively, in restricted cash related to deposits in environmental trust funds.
- (b) In February 2008, the Company sold its Chinese subsidiaries to an arms-length party for proceeds of US\$1,980,000 (\$1,942,491), of which US\$300,000 (\$367,380) was held in escrow and classified as restricted cash as at December 31, 2008. In September 2009, the arms length party retained US\$50,000 which was written off to bad debts expense included in Administrative and general costs, and the Company collected the remaining US\$250,000.

13. Available-for-sale financial asset:

In February 2010, the Company invested in a fixed income fund that invests in money market instruments. Such investment is being carried at market value and classified as an available for sale financial asset. The total amount of investment at December 31, 2010 amounts to \$227,937.

14. Investment in an associate:

On December 30, 2010, the Company acquired beneficial ownership of 29,650,000 common shares of TG World for an aggregate price of \$1,482,500 that represents approximately 18% of the outstanding common shares of TG World. The Company also acquired a \$1,317,500 convertible promissory note (note 8). If the full principal amount of the note were converted into common shares of the Issuer at a conversion price of \$0.05 per share, TVI would hold approximately 29.4% of the outstanding common shares of TG World, giving the Company significant influence over the entity.

The summarized unaudited financial information of TG World as of and for the year ended December 31, 2010 follow:

| | 2010 |
|--|---------------|
| Total assets | \$ 24,757,950 |
| Total liabilities | 12,091,954 |
| Interest income | 16,537 |
| Net loss attributable to equity holdings of TG World | (42,473,635) |

TVI Pacific Inc.
Notes to the Consolidated Financial Statements
December 31, 2010, 2009 and 2008
(in Canadian dollars)



15. Property and equipment:

| | Transportation and heavy equipment | Communication and other equipment | Computer equipment | Field and geological equipment | Office furniture and equipment | Buildings and leasehold improvements | Plant Equipment | Construction in progress | Total |
|---------------------------------|--|---|-----------------------|--------------------------------------|--------------------------------------|--|-----------------------|-----------------------------|------------------------|
| COST | | | | | | | | | |
| At January 1, 2008 | \$ 407,684 | \$ 54,272 | \$ 915,979 | \$ 72,033 | \$ 309,982 | \$ 797,398 | \$ 11,047,763 | \$ 15,038,416 | \$ 28,643,527 |
| Additions | 176,256 | - | 14,619 | - | - | 36,870 | 514,354 | 10,050,278 | 10,792,377 |
| Reclassifications | - | - | - | - | - | 134,957 | (1,633,016) | (134,957) | (1,633,016) |
| Disposal | (48,378) | - | (2,322) | - | (46,598) | - | (1,264,259) | - | (1,361,557) |
| Write-off | (27,675) | (24,442) | (207,953) | - | (112,173) | (85,216) | (2,443,222) | - | (2,900,681) |
| Foreign currency translation | 39,673 | 2,757 | 46,703 | 5,827 | 8,782 | 65,968 | 564,928 | 1,879,043 | 2,613,681 |
| At December 31, 2008 | 547,560 | 32,587 | 767,026 | 77,860 | 159,993 | 949,977 | 6,786,548 | 26,832,780 | 36,154,331 |
| Additions | 127,298 | - | 67,000 | - | 5,684 | - | 186,148 | 4,572,104 | 4,958,234 |
| Reclassifications | - | - | 11,238 | - | - | 677,739 | 10,192,313 | (10,881,290) | - |
| Disposal | - | - | (40,643) | - | - | - | (220,728) | - | (261,371) |
| Write-off | - | - | (1,114) | - | - | - | - | (5,694,596) | (5,695,710) |
| Foreign currency translation | (74,793) | (3,970) | (78,530) | (9,486) | (13,357) | (153,781) | (1,472,066) | (2,506,308) | (4,312,291) |
| At December 31, 2009 | 600,065 | 28,617 | 724,977 | 68,374 | 152,320 | 1,473,935 | 15,472,215 | 12,322,690 | 30,843,193 |
| Additions | 303,769 | 10,622 | 96,948 | 125,023 | 1,807 | 89,211 | 1,018,818 | 5,807,234 | 7,453,432 |
| Reclassifications | 8,320 | - | 33,547 | - | (33,547) | 558,262 | 5,206,745 | (6,064,589) | (291,262) |
| Disposal | (11,946) | - | (6,638) | - | - | (41,090) | (13,382) | - | (73,056) |
| Foreign currency translation | 7,507 | 367 | 7,977 | 631 | 1,358 | 18,289 | 197,314 | 169,976 | 403,419 |
| At December 31, 2010 | 907,715 | 39,606 | 856,811 | 194,028 | 121,938 | 2,098,607 | 21,881,710 | 12,235,311 | 38,335,726 |
| ACCUMULATED DEPRECIATION | | | | | | | | | |
| At January 1, 2008 | (211,218) | (38,309) | (557,034) | (21,784) | (242,901) | (282,014) | (5,349,909) | (5,754,786) | (12,457,955) |
| Depreciation | (69,541) | (4,523) | (273,939) | (14,140) | (23,460) | (181,480) | (135,727) | (128,591) | (831,401) |
| Reclassifications | - | - | - | - | - | - | 156,714 | - | 156,714 |
| Disposal | 38,337 | - | 664 | - | 46,595 | - | 1,043,816 | - | 1,129,412 |
| Impairment | - | - | - | - | - | - | (436,910) | - | (436,910) |
| Write-off | 27,675 | 24,442 | 207,953 | - | 112,173 | 85,216 | 2,283,188 | - | 2,740,647 |
| Foreign currency translation | (17,321) | (1,768) | (42,130) | (2,707) | (6,154) | (27,475) | (234,271) | (474,086) | (805,912) |
| At December 31, 2008 | \$ (232,068) | \$ (20,158) | \$ (664,486) | \$ (38,631) | \$ (113,747) | \$ (405,753) | \$ (2,673,099) | \$ (6,357,463) | \$ (10,505,405) |



15. Property and equipment (continued):

| | Transportation and heavy equipment | Communication and other equipment | Computer equipment | Field and geological equipment | Office furniture and equipment | buildings and leasehold improvements | Plant Equipment | Construction in progress | Total |
|------------------------------|--|---|-----------------------|--------------------------------------|--------------------------------------|--|--------------------|-----------------------------|---------------------|
| Depreciation | \$ (93,649) | \$ (4,525) | \$ (48,037) | \$ (14,146) | \$ (17,118) | \$ (270,721) | \$ (1,539,961) | \$ (3,499,381) | \$ (5,487,538) |
| Reclassifications | - | - | (8,212) | - | - | (65,156) | (1,429,072) | 845,890 | (656,550) |
| Disposal | - | - | 25,979 | - | - | - | 220,729 | - | 246,708 |
| Write-off | - | - | 1,114 | - | - | - | - | 5,694,596 | 5,695,710 |
| Foreign currency translation | 34,220 | 2,742 | 74,294 | 5,605 | 9,955 | 69,107 | 500,243 | 581,301 | 1,277,467 |
| At December 31, 2009 | (291,497) | (21,941) | (619,348) | (47,172) | (120,910) | (672,523) | (4,921,160) | (2,735,057) | (9,429,608) |
| Depreciation | (134,170) | (5,731) | (62,372) | (19,523) | (5,337) | (366,951) | (3,649,307) | (4,511,090) | (8,754,481) |
| Reclassifications | (1,196) | - | (23,341) | - | 23,341 | - | (21,562) | - | (22,758) |
| Disposal | 11,946 | - | 1,144 | - | - | 17,504 | 13,382 | - | 43,976 |
| Foreign currency translation | (3,702) | (287) | (7,476) | (600) | (1,049) | (8,139) | (58,614) | (26,469) | (106,336) |
| At December 31, 2010 | (418,619) | (27,959) | (711,393) | (67,295) | (103,955) | (1,030,109) | (8,637,261) | (7,272,616) | (18,269,207) |
| NET BOOK VALUE | | | | | | | | | |
| At December 31, 2008 | | | | | | | | | |
| Cost or valuation | 547,560 | 32,587 | 767,026 | 77,860 | 159,993 | 949,977 | 6,786,548 | 26,832,780 | 36,154,331 |
| Accumulated depreciation | (232,068) | (20,158) | (664,486) | (38,631) | (113,747) | (405,753) | (2,673,099) | (6,357,463) | (10,505,405) |
| Net book value | 315,492 | 12,429 | 102,540 | 39,229 | 46,246 | 544,224 | 4,113,449 | 20,475,317 | 25,648,926 |
| At December 31, 2009 | | | | | | | | | |
| Cost or valuation | 600,065 | 28,617 | 724,977 | 68,374 | 152,320 | 1,473,935 | 15,472,215 | 12,322,690 | 30,843,193 |
| Accumulated depreciation | (291,497) | (21,941) | (619,348) | (47,172) | (120,910) | (672,523) | (4,921,160) | (2,735,057) | (9,429,608) |
| Net book value | 308,568 | 6,676 | 105,629 | 21,202 | 31,410 | 801,412 | 10,551,055 | 9,587,633 | 21,413,585 |
| At December 31, 2010 | | | | | | | | | |
| Cost or valuation | 907,715 | 39,606 | 856,811 | 194,028 | 121,938 | 2,098,607 | 21,881,710 | 12,235,311 | 38,335,726 |
| Accumulated depreciation | (418,619) | (27,959) | (711,393) | (67,295) | (103,955) | (1,030,109) | (8,637,261) | (7,272,616) | (18,269,207) |
| Net book value | \$ 489,096 | \$ 11,647 | \$ 145,418 | \$126,733 | \$ 17,983 | \$ 1,068,498 | \$ 13,244,449 | \$ 4,962,695 | \$ 20,066,519 |

15. Property and equipment (continued):

The sulphide dam is classified under construction in progress because it is being built progressively in stages. Portions of the dam currently in use are being amortized using the unit-of-production depreciation method. During the fourth quarter of 2009, the Company started the construction of the zinc circuit which continues in its commissioning stage.

During the year, the Company did not capitalize any interest (2009 - \$400,194 and 2008 - \$902,107) related to financing. For the year ended December 31, 2010 and 2009, the Company did not identify any triggering events which would indicate impairment over the valuation of its property and equipment. In 2008, the Company recorded under Amortization, accretion, and impairment an impairment loss of \$678,877 with respect to equipment previously used in the gossan operations at Canatuan.

16. Mining claims and deferred exploration costs:

Mining claims and deferred exploration costs are intangible assets which include all expenditures directly related to the acquisition, exploration and administration of the Sulphide Project.

The carrying amount of mining claims and deferred exploration costs and the related movements consist of:

| | 2010 | 2009 | 2008 |
|------------------------------|--------------|--------------|--------------|
| January 1 | \$ 5,659,041 | \$ 6,572,267 | \$ 1,362,916 |
| Additions | 216,701 | 524,707 | 4,407,076 |
| Amortization | (2,031,026) | (1,301,456) | - |
| Reclassification | 22,758 | 656,550 | 372,617 |
| Foreign currency translation | 82,184 | (793,027) | 429,658 |
| End of period | \$ 3,949,658 | \$ 5,659,041 | \$ 6,572,267 |

17. Loan instruments:

(a) The Company has letter of credit facilities with a major Philippine bank which accrue interest of 4.00% to 8.25% per annum and are payable over four equal monthly installments starting 90 days from the withdrawal dates. The total amount payable to the bank at December 31, 2010 was \$922,491 (December 31, 2009 - \$323,751 and December 31, 2008 - \$1,069,393)

(b) The Company acquired short-term loans from a major Philippine bank. These loans are secured by the metal off-take agreement related to the sale of copper concentrates. As at December 31, 2010, the total principal and interest outstanding was US\$10,507,375 (\$10,499,759).

| Loan Date | Principal loan outstanding (US\$) | Interest Rate | Term |
|-------------------|-----------------------------------|---------------|--|
| April 29, 2010 | 1,500,000 | 2.30% | 1 year (four equal quarterly payments) |
| June 21, 2010 | 2,000,000 | 2.30% | 1 year |
| October 15, 2010 | 3,300,000 | 2.30% | 180 days |
| November 26, 2010 | 2,200,000 | 2.30% | 180 days |
| December 29, 2010 | 1,500,000 | 1.38% | 1 year |

The Company obtained a US\$3.0 million and a US\$2.0 million loan on April 29, 2010 and June 21, 2010, respectively. Two scheduled quarterly payments in the amount of US\$750,000 each were made in July and October 2010. The proceeds of these loans were all used to fund the voluntary principal prepayment on the Term Facility (note 17c), which had a higher effective interest rate.

On April 20, 2010, the Company obtained a US\$3.3 million revolving loan from a major Philippine bank, payable in 180 days, bearing interest at 4.3% per annum. This facility was paid on October 15, 2010. On the same day, the same facility was renewed by the same Philippine bank and immediately utilized by the Company. The renewed facility is payable in 180 days (from October 15, 2010), bearing a lower interest rate of 2.3% per annum subject to quarterly re-pricing.

17. Loan instruments (continued):

The Company also obtained a US\$2.2 million and a US\$1.5 million loan in November and December 2010, bearing interest rates of 2.30% and 1.38% per annum, respectively.

- (c) In June 2010, the Company completed repayment of the US\$30.1 million five-year term loan facility agreement ("Term Facility"), signed in January 2009 with LIM Asia Arbitrage Fund Inc. and LIM Asia Special Situations Master Fund Limited (the "Lenders"). The facility was composed of the bridge financing facility signed with the Lenders in March 2008, which bore interest at the rate of 14% per annum and was converted into the Term Facility on February 6, 2009. The Term Facility was secured by a charge on all of the present and after acquired assets of TVIRD. The funds borrowed under the Term Facility bore interest at the rate of 10% per annum calculated on the original principal balance, irrespective of the actual outstanding principal balance. However, voluntary prepayments, meeting certain conditions set forth in the Term Facility, decreased the principal balance on which interest was calculated. The Company recognized the related interest expense based upon the calculated effective annual rate of interest on the loan of approximately 23.4%.

During 2009, the Company made one scheduled payment and one voluntary principal prepayment, reducing the Term Facility to US\$24.3 million. As a result of the voluntary principal prepayment, the Company re-calculated the effective annual interest rate on the loan to be approximately 25.96%.

During the first half of 2010, the Company made five more voluntary principal payments totaling US\$22.3 million and a scheduled payment of US\$2.0 million, fully paying off the Term Facility. The interest expense from the term loan including loss on debt extinguishment, for the same period, was \$8.6 million, \$7.4 million of which represents prepayment premiums.

18. Provisions and other liabilities:

a) Asset retirement obligation:

At December 31, 2010, the estimated total undiscounted inflation adjusted amount required to settle the asset retirement obligations was \$5.3 million. These obligations will be settled based on the useful lives of the underlying assets between the years of 2010 to 2018. This amount has been discounted using the credit-adjusted risk free rate of 8%.

Changes to the asset retirement obligations were as follows:

| | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|
| Canatuan property: | | | |
| Beginning balance | \$ 2,594,665 | \$ 2,803,219 | \$ 1,999,970 |
| Additions related to sulphide operations | - | - | 199,074 |
| Accretion expense | 246,378 | 289,171 | 122,922 |
| Accretion expense capitalized | - | 26,274 | 124,739 |
| Revision of estimate | 1,205,347 | - | 231,687 |
| Liability paid | (916,346) | (173,480) | (77,129) |
| Foreign currency translation | 34,337 | (350,519) | 201,956 |
| Ending balance | \$ 3,164,381 | \$ 2,594,665 | \$ 2,803,219 |
| Current portion | 617,793 | 506,979 | 1,357,787 |
| Non-current portion | 2,546,588 | 2,087,686 | 1,445,432 |
| | \$ 3,164,381 | \$ 2,594,665 | \$ 2,803,219 |

18. Provisions and other liabilities (continued):

b) Provision:

In March 2008, the Company was named in a proceeding alleging impropriety in relation to the Company's historical share option granting practices in prior consolidated financial statements. The Company finalized the settlement in June 2009. Legal fees and settlement amounts were paid by the Company's insurance company, less a retention amount which the Company paid in 2008.

19. Related party transactions:

The consolidated financial statements include the financial statements of TVI including the following significant subsidiaries:

| | Country of Incorporation | % Equity interest | | |
|---------------|--------------------------|-------------------|------|------|
| | | 2010 | 2009 | 2008 |
| TVI Limited | Anguilla | 100% | 100% | 100% |
| TVI Marketing | Hong Kong | 100% | 100% | 100% |
| TVIRD | Philippines | 40% | 40% | 40% |
| EDCO | Philippines | 100% | 100% | 100% |
| TVI Minerals | Philippines | 100% | 100% | 100% |

Although the Company owns less than half of the voting power of TVIRD, it is able to govern the financial and operating policies of the company and receives substantially all of the benefits and risks related to their operations and net assets, by virtue of an agreement with the other investors. Consequently, the Company consolidates its investment in TVIRD.

Transactions with related parties are entered into at the exchange amounts which approximate fair value:

- During the year ended December 31, 2010, the Company paid or accrued management fees of \$756,564 (2009 - \$900,609 and 2008 - \$574,093). Management fees are paid to a corporation owned by the President of the Company for the services of the President and support staff. At December 31, 2010, the amount payable to the corporation was \$71,735 (December 31, 2009 - \$63,534 and December 31, 2008 - \$66,406).
- During the year ended December 31, 2010, the Company charged \$127,536 (2009 - \$168,915 and 2008 - \$151,035) to a corporation for its share in rent and office maintenance costs. The president and director of the corporation is also the President of the Company. The corporation owed the Company \$11,385 at December 31, 2010 (December 31, 2009 - \$20,709 and December 31, 2008 - \$14,548).
- In April 2010, the Company completely repaid the demand promissory notes to corporations owned by the President of the Company. Including accrued interest, the total amount in promissory notes outstanding at December 31, 2009 was \$943,276 (December 31, 2008 - \$1,998,659). The Company issued 7,980,889 common shares priced at \$0.12 per share for final settlement of the notes in the amount of \$493,109 and US\$457,462 (\$464,598). During 2009, the Company retired \$666,276 and US\$361,680 (\$425,275) through private placements of common shares (note 22b). The notes earned interest at 12% and 14.12% per annum, respectively, and had no fixed terms of repayment.
- In March 2009, an officer of TVIRD loaned the Company demand loans totaling US\$150,000 (\$174,375) bearing interest at 20% per annum. The amount was fully repaid in early April 2009.
- During the year, the Company incurred director fees of \$452,750 (2009 - \$166,022 and 2008 - \$142,750) and paid \$271,706 (2009 - \$223,750 and 2008 - \$24,750). At December 31, 2010, the fees payable to directors were \$263,188 (December 31, 2009 - \$166,022 and December 31, 2008 - \$225,493).

19. Related party transactions (continued):

- During the year ended December 31, 2010, the Company paid \$229,323 (2009 - \$220,012 and 2008 - \$394,460) to corporations controlled by a director and president of TVIRD for administrative expenses. The Company owed the corporations \$21,227 at December 31, 2010 (December 31, 2009 - \$24,430 and December 31, 2008 - \$71,804).

Compensation of key management personnel composed of the officers of the Company:

| | 2010 | 2009 | 2008 |
|------------------------------|--------------|--------------|-----------|
| Short-term employee benefits | \$ 2,308,354 | \$ 2,348,183 | 2,101,216 |
| Stock options expense | 256,023 | 232,741 | 99,991 |
| | \$ 2,564,377 | \$ 2,580,924 | 2,201,207 |

20. Pension obligation:

The following are details of the Company's retirement obligations:

| | 2010 | 2009 | 2008 |
|---------------------------------------|--------------|------------|------------|
| Present value of unfunded obligations | \$ 1,699,391 | \$ 392,239 | \$ 286,218 |
| Unrecognized actuarial loss | (60,879) | 333,334 | 404,778 |
| Unrecognized past service cost | (144,604) | - | - |
| Pension obligation | \$ 1,493,909 | \$ 725,573 | \$ 690,996 |

Changes in the present value of the defined benefit obligation are as follows:

| | 2010 | 2009 | 2008 |
|--|--------------|------------|------------|
| Balance beginning of year | \$ 392,239 | \$ 286,218 | \$ 436,535 |
| Current service cost | 404,957 | 106,234 | 178,930 |
| Past service cost | 388,600 | - | - |
| Interest cost and foreign currency translation | 125,922 | (57,188) | 85,791 |
| Actuarial losses (gains) | 387,673 | 56,975 | (415,038) |
| Balance end of year | \$ 1,699,391 | \$ 392,239 | \$ 286,218 |

The movement in the liability recognized in the consolidated statement of financial position is as follows:

| | 2010 | 2009 | 2008 |
|---------------------------|--------------|------------|------------|
| Balance beginning of year | \$ 725,573 | \$ 690,996 | \$ 424,534 |
| Total expense | 768,336 | 34,577 | 266,462 |
| Balance end of year | \$ 1,493,909 | \$ 725,573 | \$ 690,996 |

Pension costs recognized in the consolidated statement of comprehensive income are as follows:

| | 2010 | 2009 | 2008 |
|---|------------|------------|------------|
| Current service cost | \$ 404,957 | \$ 106,234 | \$ 178,930 |
| Past service cost | 243,997 | - | - |
| Interest cost and foreign currency translation | 125,922 | (57,188) | 85,791 |
| Amortization of unrecognized actuarial losses (gains) | (6,540) | (14,469) | 1,741 |
| Total included in administrative and general costs | \$ 768,336 | \$ 34,577 | \$ 266,462 |

20. Pension obligation (continued):

The principal annual actuarial assumptions used were as follows:

| | 2010 | 2009 | 2008 |
|---|-------|-------|-------|
| Discount rate | 8.9% | 9.1% | 13.1% |
| Future salary increases | 10.0% | 10.0% | 10.0% |
| Average remaining working life in years | 23 | 22 | 22 |

The pension plan continues to be unfunded as of December 31, 2010.

21. Income taxes:

The provision for income taxes differs from that which would be expected by applying the combined federal and provincial corporate statutory rates as follows:

| | 2010 | 2009 | 2008 |
|---|---------------|---------------|-----------------|
| Income tax rate | 28.00% | 29.00% | 29.50% |
| Net income (loss) for the year | \$ 11,279,629 | \$ 18,317,842 | \$ (12,762,793) |
| Expected expense (recovery) | \$ 3,158,296 | \$ 5,312,174 | \$ (3,765,024) |
| Change to income taxes resulting from: | | | |
| Stock based compensation and other | 250,253 | 304,699 | (68,029) |
| Rate change on valuation allowance | 88,230 | 53,684 | 45,505 |
| Unrecognized tax credit for Canadian losses | 735,245 | 569,054 | 519,714 |
| Other | 163,109 | | |
| Income eligible for Philippines tax holiday | (4,395,133) | (6,239,611) | 3,267,834 |
| | \$ - | \$ - | \$ - |

Substantially all of the Company's future income tax asset relates to property and equipment and non-capital losses, none of which was recognized in these consolidated financial statements.

At December 31, 2010, the Company has Canadian non-capital losses available for income tax purposes of approximately \$15.9 million (2009 - \$15.3 million and 2008 - \$13.3 million), which may be applied to reduce taxable income in future taxation years, the benefit of which has not been recorded in these consolidated financial statements. Of these losses, \$1,349,371 and \$2,122,376 will expire in 2014 and 2015 respectively. The remaining losses expire commencing 2026 through 2030.

The Company has been awarded a tax holiday on its sulphide mining operation by the Philippine Government and covers January 2009 to December 2014. At December 31, 2010, the Company has tax losses available for income tax purposes in the Philippines of approximately Php1.3 billion (\$29.1 million) and minimum corporate taxes of Php2.5 million (\$56,103), which will reduce future tax liabilities. Out of these, Php277.6 million (\$6.3 million) of the tax losses and Php0.8 million (\$18,939) of the minimum corporate taxes will expire in 2011 while the remaining losses will expire in 2012 to 2015. The benefit of these tax credits has not been recorded in these consolidated financial statements.

The aggregate outside basis differences, being the difference between the carrying amount of investment in subsidiaries and their tax bases, as of December 31, 2010, 2009 and 2008 amounted to \$58.5 million, \$37.4 million and \$21.8 million, respectively. No temporary differences have been recorded in the consolidated financial statements.

22. Share capital:

(a) Authorized

Unlimited common voting shares without nominal or par value.

Unlimited preferred non-voting shares without nominal or par value, issuable in series, none of which have been issued.

(b) Issued and fully paid

| Common shares | Number of shares | Amount |
|---------------------------------|------------------|---------------|
| January 1, 2008 | 406,240,640 | \$ 21,017,205 |
| Shares issued: | | |
| Private placement | 290,698 | 12,500 |
| In exchange for debt obligation | 71,964,253 | 1,463,206 |
| Share issue cost | - | (505,345) |
| On exercise of options | 450,590 | 16,703 |
| December 31, 2009 | 478,946,181 | \$ 22,004,269 |
| In exchange for debt obligation | 7,980,889 | 957,707 |
| Share issue cost | - | (3,619) |
| On exercise of options | 1,006,591 | 59,165 |
| On exercise of warrants | 71,689,734 | 3,063,498 |
| December 31, 2010 | 559,623,395 | \$ 26,081,020 |

During 2009, the Company issued 48,735,809 common shares to related parties to settle \$666,276 and US\$361,680 (\$425,275) of indebtedness owing to them by the Company (note 19). There were 37,188,471 shares priced at \$0.016 per share issued on February 19, 2009 and 11,547,338 shares priced at \$0.043 per share issued on September 30, 2009. In April 2010, the Company issued 7,980,889 common shares priced at \$0.12 per share to related parties of the Company for final settlement of promissory notes payable to them in the amount of \$493,109 and US\$457,462 (\$464,598) (note 19).

On February 19, 2009, the Company issued 23,228,444 common shares to Zamboanga Minerals Corporation to retire US\$300,000 (\$371,655) payable for the acquisition of the rights and obligations of the property for exploration. The shares were issued at a price of \$0.016.

On December 30, 2010, the Company issued 71,689,734 common shares to the Lenders of the Term Facility in exchange for the warrants issued last January 20, 2009 (note 22d). The shares were issued at a price of \$0.043 per share.

(c) Share options

The Company has a share option plan pursuant to which options may be granted to directors, officers, and employees of the Company. The options generally vest over periods of up to three years and expire no more than 5 years from the date of grant.

On June 1, 2009, several of the directors and employees voluntarily cancelled their options because their exercise prices were significantly in excess of the current trading price of the Company's common shares. Stock options were granted to various parties in January, May, and September 2009 as well as April 2010.

22. Share capital (continued):

| | 2010 | | 2009 | | 2008 | |
|--|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning of year | 43,579,074 | \$ 0.145 | 20,101,670 | \$ 0.145 | 34,440,106 | \$ 0.133 |
| Granted | 500,000 | 0.120 | 43,780,831 | 0.046 | 500,000 | 0.050 |
| Exercised | (1,006,591) | 0.033 | (450,590) | 0.020 | - | - |
| Forfeited | (2,012,723) | 0.057 | (446,442) | 0.067 | (3,129,725) | 0.174 |
| Expired | - | - | (694,724) | 0.192 | (11,708,711) | 0.101 |
| Cancelled | - | - | (18,711,671) | 0.145 | - | - |
| Options outstanding, end of year | 41,059,760 | \$ 0.048 | 43,579,074 | \$ 0.047 | 20,101,670 | \$ 0.145 |
| Options exercisable, end of year | 24,295,183 | \$ 0.046 | 16,757,740 | \$ 0.045 | 15,230,545 | \$ 0.141 |

| Price range | Number outstanding | Weighted average remaining contractual life (years) | Exercisable |
|------------------|--------------------|---|-------------|
| \$ 0.020 – 0.029 | 18,379,759 | 3.07 | 11,573,528 |
| 0.030 – 0.044 | 750,000 | 3.36 | 250,000 |
| 0.045 – 0.067 | - | - | - |
| 0.068 – 0.100 | 21,367,502 | 3.71 | 12,409,156 |
| 0.101 – 0.151 | 500,000 | 4.29 | - |
| 0.152 – 0.190 | 62,499 | 1.38 | 62,499 |
| \$ 0.020 – 0.190 | 41,059,760 | 3.42 | 24,295,183 |

(d) Warrants

| | Number of warrants | Weighted average exercise price | Fair value |
|---|--------------------|---------------------------------|--------------|
| Warrants outstanding, January 1, 2008 | - | \$ - | \$ - |
| Granted – January 20, 2009 | 71,689,734 | 0.016 | 1,916,462 |
| Granted – September 30, 2009 | 8,399,683 | 0.043 | 487,034 |
| Warrants outstanding, December 31, 2009 | 80,089,417 | \$ 0.019 | \$ 2,403,496 |
| Exercised – December 30, 2010 | (71,689,734) | (0.016) | (1,916,462) |
| Warrants outstanding, December 31, 2010 | 8,399,683 | \$ 0.043 | \$ 487,034 |

In conjunction with the Term Facility signed on January 20, 2009, the Company issued to the Lenders 71,689,734 warrants to purchase common shares of the Company at a purchase price of \$0.016 per share. The warrants have a five-year term and expire on January 20, 2014. The recorded fair value of the warrants issued was \$1,916,462 and was recorded as a part of deferred financing costs in 2009. These warrants were exercised on December 30, 2010 (note 22b).

In conjunction with the common shares issued on September 30, 2009 (note 19), the Company issued 8,399,683 warrants to purchase common shares of the Company at a purchase price of \$0.043 per share. The warrants have a three-year term and expire on September 30, 2012. The recorded fair value of the warrants issued was \$487,034 and was recorded to share issue costs in 2009. No warrants were issued in 2008 and 2010. The following assumptions were used for the warrants issued in 2009:

| | 2009 |
|-----------------------------------|--------|
| Risk free interest rate – average | 1.6% |
| Expected life (in years) | 5 |
| Expected volatility | 127.5% |
| Average fair value per warrant | 0.030 |

22. Share capital (continued):

(e) *Stock-based compensation and contributed surplus*

The weighted average fair value of stock options granted for the year ended December 31, 2010 was \$0.106 (2009 - \$0.041 and 2008 -\$0.033) per share during the year. The following table sets out the assumptions used in applying the Black-Scholes model:

| | 2010 | 2009 | 2008 |
|-----------------------------------|--------|--------|-------|
| Risk free interest rate – average | 2.8% | 2.1% | 2.9% |
| Expected life (in years) | 5 | 5 | 5 |
| Expected volatility | 136.5% | 133.0% | 79.8% |

In 2010, a net of \$462,881 (2009 - \$1,054,350 and 2008 - \$122,959) of stock-based compensation was charged to the consolidated statement of comprehensive income.

Contributed surplus

| | 2010 | 2009 | 2008 |
|---------------------------|--------------|--------------|--------------|
| Balance beginning of year | \$ 4,676,813 | \$ 3,630,155 | \$ 3,507,196 |
| Stock-based compensation | 503,991 | 1,064,172 | 242,563 |
| Options forfeited | (41,110) | (9,822) | (119,604) |
| Options exercised | (25,533) | (7,692) | - |
| Balance end of year | \$ 5,114,161 | \$ 4,676,813 | \$ 3,630,155 |

23. Non-controlling interests:

In July 2010, the Securities and Exchange Commission of the Philippines approved the application of TVIRD to restructure its share of stock from one class to two classes of common shares – Class A and Class B. The restructuring retained the percentage of ownership and voting interests and did not affect the factors requiring the consolidation of the entity. The Class A shares, held by the Philippine residents or companies is entitled to cumulative preferred dividend equivalent to 20% of their investment per annum and retained their ownership and voting rights. As a result of this restructuring, the undistributed share of the non-controlling interests in the net income of TVIRD, amounting to \$819,020 was recognized during the year ended December 31, 2010 replacing previous years share in profits and losses. Class B shares, largely owned by TVI Marketing that is indirectly wholly owned by the Company, is entitled to any remaining profits after allocating the share of non-controlling interests.

24. Per share data:

| | 2010 | 2009 | 2008 |
|--|---------------|--------------|----------------|
| Net income (loss) attributable to | | | |
| Shareholders of the Company - continuing operations | \$ 10,460,609 | \$ 8,841,898 | \$ (8,247,355) |
| Shareholders of the Company - discontinued operations | - | - | (97,149) |
| Weighted average number of shares, basic | 485,303,502 | 461,631,750 | 406,240,640 |
| Dilutive securities – options and warrants | 24,787,863 | 56,683,777 | - |
| Weighted average number of shares, diluted | 510,091,365 | 518,315,527 | 406,240,640 |
| Net income (loss) per share attributable to shareholders of the Company: | | | |
| Basic – continuing operations | \$ 0.022 | \$ 0.019 | \$ (0.020) |
| Basic – discontinued operations | - | - | (0.000) |
| Diluted – continuing operations | 0.021 | 0.017 | (0.020) |
| Diluted – discontinued operations | - | - | (0.000) |



25. Revenues from concentrate sales:

| | 2010 | 2009 | 2008 |
|--|---------------|---------------|--------------|
| Revenues from: | | | |
| Copper | \$ 63,797,788 | \$ 56,927,959 | \$ - |
| Gold | 7,137,149 | 7,520,218 | 5,821,484 |
| Silver | 9,341,239 | 8,849,952 | - |
| Gross revenues | 80,276,176 | 73,298,129 | 5,821,484 |
| Treatment, refining, and other charges | (3,779,621) | (6,597,885) | - |
| Net revenues | \$ 76,496,555 | \$ 66,700,244 | \$ 5,821,484 |

Sales are recognized when risk and title pass to the customer and the price is reasonably determinable. Metal concentrates are sold under metal off-take agreements where 90% of the initial estimated value of the shipment is receivable immediately, based upon market prices. The final payment for the remaining 10% is due once the final testing details relating to the weight, assays and prices are determined in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of the final settlement. Variations from the initial estimate to the final testing are recorded as price adjustments in the period the variations are finalized. As a result, the value of concentrate receivables may change as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in revenues.

26. Changes in working capital:

| | 2010 | 2009 | 2008 |
|---|----------------|----------------|----------------|
| Accounts receivable | \$ (1,453,717) | \$ (2,386,051) | \$ (2,282,779) |
| Advances to suppliers | (160,066) | (539,177) | (40,588) |
| Inventories | (4,536,096) | (555,309) | 491,445 |
| Prepaid expenses | (222,357) | (158,701) | (48,897) |
| Assets held for sale | - | - | 764,754 |
| Liabilities related to assets held for sale | - | - | (477,281) |
| Trade accounts payables and accrued liabilities | 917,047 | (236,700) | 5,113,538 |
| | \$ (5,455,189) | \$ (3,875,938) | \$ (6,706,884) |

27. Segmented information:

The Company derives its revenue primarily from mining, extraction, production and selling of copper concentrates and gold and silver to an external client.

The Company has three operating units: mining activities in the Philippines, exploration in the Philippines, and corporate offices in Canada and in the Philippines. The Company's Corporate Division does not earn revenue and incurs expenses that are considered incidental to the activities of the Company and therefore does not meet the definition of operating segments as defined in IFRS 8, *Operating Segments*.

27. Segmented information (continued):

| | Mining | Exploration | Corporate | Total |
|--|---------------|-------------|-------------|---------------|
| 2010 | | | | |
| Concentrate sales | \$ 76,496,555 | \$ - | \$ - | \$ 76,496,555 |
| Other revenues | 236,237 | - | - | 236,237 |
| | 76,732,792 | - | - | 76,732,792 |
| Operating expenses | (30,087,538) | - | (6,528,568) | (36,616,106) |
| Exploration costs | - | (5,712,877) | - | (5,712,877) |
| | 46,645,254 | (5,712,877) | (6,528,568) | 34,403,809 |
| Amortization and accretion | (12,586,337) | - | (23,063) | (12,609,400) |
| | 34,058,917 | (5,712,877) | (6,551,631) | 21,794,409 |
| Gain on sale of assets | 6,631 | - | (54,148) | (47,517) |
| Other losses | - | - | (107,933) | (107,933) |
| Interest income | 40,668 | - | 41 | 40,709 |
| Interest expense, net of reversal, and loss on debt extinguishment | (9,679,978) | - | - | (9,679,978) |
| Foreign exchange loss | - | - | (720,061) | (720,061) |
| Net income (loss) | \$ 24,426,238 | (5,712,877) | (7,433,732) | 11,279,629 |

| | Mining | Exploration | Corporate | Total |
|----------------------------|---------------|--------------|----------------|---------------|
| 2009 | | | | |
| Concentrate sales | \$ 66,700,244 | \$ - | \$ - | \$ 66,700,244 |
| Other revenues | 264,573 | - | - | 264,573 |
| | 66,964,817 | - | - | 66,964,817 |
| Operating expenses | (26,278,844) | - | (7,522,733) | (33,801,577) |
| Exploration costs | - | (431,142) | - | (431,142) |
| | 40,685,973 | (431,142) | (7,522,733) | 32,732,098 |
| Amortization and accretion | (7,224,802) | - | (31,344) | (7,256,146) |
| | 33,461,171 | (431,142) | (7,554,077) | 25,475,952 |
| Gain on sale of assets | 170,813 | - | (12,751) | 158,062 |
| Interest income | 136,411 | 1,831 | 49 | 138,291 |
| Interest expense | (7,356,989) | - | - | (7,356,989) |
| Foreign exchange loss | - | - | (97,474) | (97,474) |
| Net income (loss) | \$ 26,411,406 | \$ (429,311) | \$ (7,664,253) | \$ 18,317,842 |

27. Segmented information (continued):

| | Mining | Exploration | Corporate | Total |
|---|----------------|----------------|----------------|-----------------|
| 2008 | | | | |
| Concentrate sales | \$ 5,821,484 | \$ - | \$ - | \$ 5,821,484 |
| Other revenues | 133,005 | - | - | 133,005 |
| | 5,954,489 | - | - | 5,954,489 |
| Operating expenses | (6,427,146) | - | (4,413,335) | (10,840,481) |
| Exploration costs | - | (1,580,243) | - | (1,580,243) |
| | (472,657) | (1,580,243) | (4,413,335) | (6,466,235) |
| Amortization, accretion, and impairment | (2,239,839) | - | (40,829) | (2,280,668) |
| | (2,712,496) | (1,580,243) | (4,454,164) | (8,746,903) |
| Gain on sale of assets | 721,109 | - | 1,652,310 | 2,373,419 |
| Interest income | 15,450 | 2,762 | 63 | 18,275 |
| Interest expense | (1,832,224) | - | - | (1,832,224) |
| Foreign exchange loss | - | - | (4,478,211) | (4,478,211) |
| Net loss from continuing operations | (3,808,161) | (1,577,481) | (7,280,002) | (12,665,644) |
| Net loss from discontinuing operations | (26,620) | (56,743) | (13,786) | (97,149) |
| Net income (loss) | \$ (3,834,781) | \$ (1,634,224) | \$ (7,293,788) | \$ (12,762,793) |

| | Mining | Exploration | Corporate | Total |
|--------------------|---------------|-------------|--------------|---------------|
| Assets | | | | |
| December 31, 2010 | \$ 47,847,541 | \$ - | \$ 4,135,433 | \$ 51,982,974 |
| December 31, 2009 | 49,742,933 | - | 464,422 | 50,207,355 |
| December 31, 2008 | 38,681,883 | - | 3,092,136 | 41,774,019 |
| Liabilities | | | | |
| December 31, 2010 | 21,431,813 | - | 954,888 | 22,386,701 |
| December 31, 2009 | 33,266,154 | - | 1,404,609 | 34,670,763 |
| December 31, 2008 | 43,335,805 | - | 4,835,002 | 48,170,807 |

| | Mining | Exploration | Corporate | Total |
|-----------------------------|--------------|-------------|-----------|--------------|
| Capital expenditures | | | | |
| December 31, 2010 | \$ 7,588,620 | \$ - | \$ 89,019 | \$ 7,677,639 |
| December 31, 2009 | 6,369,144 | - | 16,773 | 6,385,917 |
| December 31, 2008 | 14,079,769 | - | 2,887 | 14,082,656 |

Geographic information:

| | Philippines | Canada |
|--------------------------------------|---------------|---------|
| Revenues | | |
| For the year ended December 31, 2010 | \$ 76,732,792 | \$ - |
| For the year ended December 31, 2009 | 66,964,817 | - |
| For the year ended December 31, 2008 | 5,954,489 | - |
| Property and equipment | | |
| December 31, 2010 | 19,928,904 | 137,615 |
| December 31, 2009 | 21,316,172 | 97,413 |
| December 31, 2008 | 25,522,279 | 126,647 |

There is only one customer in the mining division contributing to 100% of the revenue from concentrate sales.

28. Commitments:

(a) Advisory agreement – Philippines

On January 20, 2009, the Company entered into an Advisory Agreement with a third party (the “Advisor”). The agreement provided that the Advisor will be entitled to a fee equal to 10% per annum of the original Term Facility principal of US\$30.1 million (note 17c). In addition, the Advisor will be entitled to 40% of any cash earned by TVIRD in excess of cash required for operating, financing, and investing activities, commencing December 31, 2010. Voluntary principal prepayments reduced the advisory fee and percentage of the profit participation proportionately. During 2010, the Company paid US\$1.3 million in advisory fees (2009 - US\$2.0 million). The Advisory Agreement expired with the repayment of the Term Facility in June 2010.

(b) Joint venture agreement - Philippines

In February 2010, TVIRD signed a Joint Venture Agreement (“JVA”) with an independent and unrelated third party, to conduct exploration, development and production of mineral deposits within the area known as EXPA 61, in the Greater Canatuan Tenement Area. EXPA 61 is within a 15 kilometer (9 mile) radius trucking distance to the current Canatuan sulphide plant. Under the JVA, TVIRD holds 70% interest and acts as the operator, while the remaining 30% interest is held by the independent third party. The partners will fund an exploration program for a period of two years amounting to a maximum of US\$2 million, to be shared in accordance with their interests in the Joint Venture.

(c) Corporate - Canada

The Company rents its office premises on a five-year term lease. Total rent payments, net of short-term sub-leasing arrangements are the following:

| | 2010 | 2009 | 2008 |
|---|--------|---------|--------|
| Not later than 1 year | 48,015 | 36,432 | 18,426 |
| More than 1 year and not later than 5 years | 57,819 | 105,834 | 73,705 |

29. Financial instruments:

(a) Analysis of financial assets and financial liabilities

The tables below set out the Company’s classification for each of its financial assets and liabilities at December 31.

| | 2010 | 2009 | 2008 |
|--|-----------------|-----------------|-----------------|
| Loans and receivables: | | | |
| Cash | \$ 8,941,964 | \$ 13,978,620 | \$ 2,754,102 |
| Restricted cash | 1,260,660 | 118,582 | 501,567 |
| Accounts receivable | 6,016,942 | 5,087,663 | 3,031,328 |
| Advances to suppliers | 807,907 | 639,448 | 100,271 |
| Total loans and receivables | 17,027,473 | 19,824,313 | 6,387,268 |
| Held for trading | | | |
| Note receivable | 1,179,005 | - | - |
| Available-for-sale | 227,937 | - | - |
| | \$ 18,434,415 | \$ 19,824,313 | \$ 6,387,268 |
| Other financial liabilities: | | | |
| Accounts payable, accrued liabilities, and long term payable | \$ (5,963,010) | \$ (5,494,263) | \$ (9,422,685) |
| Loan payable | (11,422,250) | (24,647,151) | (32,872,824) |
| Due to related parties | (343,151) | (1,209,111) | (2,381,083) |
| | \$ (17,728,411) | \$ (31,350,525) | \$ (44,676,592) |

30. Events after reporting date:

On December 23, 2010, TVI entered into a plan of arrangement with TG World Energy Inc. ("TG World") under which the Company agreed to acquire all of the outstanding common shares of TG World not owned by it as of the effective date of the acquisition.

On March 1, 2011, the Company entered into an unsecured loan arrangement with TG World for US\$500,000. The full amount of the Loan was advanced immediately to TG World and used to fund obligations in the Philippines.

A special meeting of TG World security holders was held on March 4, 2011. Security-holders voted 99.79% in favour of the Arrangement and the Arrangement also received the required majority of the minority approval.

The Arrangement was approved by the Court of Queen's Bench of Alberta on March 9, 2011. On March 10, 2011, the Arrangement was completed pursuant to which TVI acquired all of the outstanding TG World common shares. Pursuant to the Arrangement, TVI Pacific issued approximately 61.5 million shares to acquire ownership and control of the 134,335,870 TG World common shares not owned by TVI Pacific immediately prior to the Arrangement. TG World is now a wholly owned subsidiary of TVI Pacific.

The initial accounting for the acquisition, including the details of the acquisition-date fair value of the total consideration transferred or major class of consideration and amounts to be recognized as of the acquisition date for each major class of assets acquired and liabilities assumed, are not yet complete as of the date these consolidated financial statements are authorized for issue. Such information is expected to be available when the Company compiles its Q1 2011 consolidated financial statements.

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Share Listing:

Toronto Stock Exchange Symbol: TVI

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