



## **Management's Discussion and Analysis**

**For the Three and Nine Months Ended  
September 30, 2010 and 2009**



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

*The discussion and analysis that follows is intended to provide a summary of TVI Pacific Inc. ("TVI" or the "Company") results over the three and nine months ended September 30, 2010 and 2009, as well as its financial position and future plans. It should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 in addition to the audited financial statements for the years ended December 31, 2009 and 2008. All numbers in this discussion and analysis are expressed in Canadian dollars unless otherwise indicated. Additional information is available on TVI's website at [www.tvipacific.com](http://www.tvipacific.com) or on SEDAR's website at [www.sedar.com](http://www.sedar.com). Information in this MD&A is as of November 15, 2010.*

### OVERVIEW OF BUSINESS

TVI is a profitable copper producer focused on the production, development, exploration and acquisition of precious and base metal mining projects in the Philippines. TVI owns 40% of TVI Resource Development (Phils.), Inc. ("TVIRD"), which is the main operating affiliate. As TVIRD is considered a variable interest entity, TVI fully consolidates its interest in TVIRD.

TVI is focused on three key areas of growth:

- Maximize profits through process optimization at the producing Canatuan mine;
- Capitalize on near-term development and exploration properties and expedite exploration on other potentially high-impact North Zamboanga Tenements.
  - TVI plans to fast-track exploration drilling on identified prospects in the Greater Canatuan Tenement Area ("GCTA") and Siennalynn to expand its current mine life; conduct additional drilling and initiate an internal scoping study at the Balabag gold property; and expedite exploration and drilling at the Tamarok copper-gold project.
  - TVI also plans to continue other exploration activities on its 1,240 km<sup>2</sup> (771 mi<sup>2</sup>) tenement package on the Zamboanga Peninsula that has the potential to host significant porphyry copper-gold, massive sulphide and epithermal gold deposits.
- Assess potential value enhancing joint venture or acquisition opportunities and consider raising additional capital to finance the exploration and development of its diverse portfolio of mining properties and land positions.

### PRODUCING PROPERTIES – CANATUAN MINE

The Canatuan mine is a polymetallic mine located in the Province of Zamboanga del Norte on the island of Mindanao in the Philippines. The Canatuan mine initially produced gold and silver doré from gossan ore, the oxidized cap of a volcanogenic massive sulphide deposit. The gossan ore was mined using open-pit methods and processed through conventional carbon-in-leach and Merrill Crowe circuits. The underlying primary sulphide portion of the deposit, hosting copper and zinc, was largely exposed during the mining of the gossan deposit.

TVI commenced construction and development of the Canatuan Sulphide Project in early 2007. The Sulphide Project included the construction of a new processing plant as well as the staged construction of a separate tailings dam. The plant construction was completed on time and under budget. The project began commissioning in mid-November 2008 and commercial production was declared on March 1, 2009, when copper concentrate inventory levels surpassed the 5,000-tonne shipping threshold.



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Yulo Perez, Vice President for Philippine Operations of TVIRD, is acting as the Qualified Person in compliance with National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101") reporting requirements with respect to the Canatuan mine. He has prepared and or supervised the preparation of the scientific or technical information in this document and confirms compliance with NI 43-101 requirements.

**Reserves and Resources**

In April 2008, TVI received a NI 43-101 technical report on the Canatuan sulphide deposit prepared by P.J. Lafleur Geo-Conseil Inc., an independent consulting group. This report was filed with certain securities regulatory authorities in Canada on April 7, 2008, and is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). The NI 43-101 technical report includes the initial reserves and resources at the beginning of the Canatuan Sulphide Project.

The Company's current mineral reserve and resource estimates, as reported in the MD&A for the years ended December 31, 2009 and 2008, continue to be valid given the Company's anticipated production schedule.

**Operations**

The average daily throughput for the nine months ended September 30, 2010, was 2,234 dry metric tonnes per day. TVI is currently targeting an average daily throughput of 2,300 dry metric tonnes per day, which results in a remaining life of mine of approximately 2.6 years as at September 30, 2010 based on the initial reserves and resources as reported in the 43-101 technical report prepared by P.J. Lafleur Geo-Conseil Inc.

In March 2010, the Company received an amendment to its Environmental Compliance Certificate that increased the daily maximum allowable production rate to 2,500 tonnes per day and the maximum annual extraction rate of 2,500,000 tonnes per year. This allows the Company the capacity to process additional ore from other sources, including ore surrounding the current Canatuan mine that was previously uneconomic or undrilled, and potential prospects within the GCTA.

As of September 30, 2010, the Company completed the following shipments:

Shipment Number	Shipment Completion Date	Shipped (dry metric tonnes)	Gross Revenue (in US\$)			
			Copper	Gold	Silver	Total
11	January 27, 2010	5,076	6,899,834	637,991	742,416	8,280,241
12	March 4, 2010	5,224	7,015,147	778,392	1,444,089	9,237,628
13	March 20, 2010	5,214	6,941,327	911,393	1,274,188	9,126,908
14	May 5, 2010	5,285	7,433,147	922,340	783,279	9,138,766
15	June 22, 2010	5,248	6,056,820	587,985	479,034	7,123,839
16	August 7, 2010	5,238	6,505,018	684,431	748,710	7,938,159
17	September 24, 2010	5,290	6,727,478	659,519	805,169	8,192,166
		<b>36,575</b>	<b>47,578,771</b>	<b>5,182,051</b>	<b>6,276,885</b>	<b>59,037,707</b>

Subsequent to the period and up to the date of this document, the Company completed the following additional shipment:

Shipment Number	Shipment Completion Date	Shipped (dry metric tonnes)	Gross Revenue (in US\$)			
			Copper	Gold	Silver	Total
18	November 6, 2010	5,375	7,163,709	832,780	921,408	8,917,897



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As of September 30, 2010 shipment 17<sup>th</sup> was still subject to price adjustment from final concentrate testing relating to the final weight, assays and market prices. As of the date of this report, only shipment 18<sup>th</sup> is subject to price adjustment.

**Selected operational snapshot:**

	Quarter ended Sept. 30, 2010	Quarter ended June 30, 2010	Quarter ended March 31, 2010	Year to date Sept. 30, 2010
Copper pound equivalent ("Cu lb eq") produced	6,249,498	5,035,688	8,841,433	20,126,618
Copper produced (lbs)	5,140,344	4,111,496	6,930,404	16,182,244
Gold produced (oz)	1,379	1,184	2,321	4,884
Silver produced (oz)	97,676	76,571	220,400	394,647

	Quarter ended Sept. 30, 2010	Quarter ended June 30, 2010	Quarter ended March 31, 2010	Year to date Sept. 30, 2010
Total tonnes processed	218,525	187,845	203,480	609,850
Average tonnes processed per day	2,375	2,064	2,261	2,234
Ore copper grade (%)	1.21	1.22	1.75	1.39
Copper recovery (%)	88.43	81.41	88.14	86.42
Concentrates produced (dry weight - t)	12,680	10,110	15,826	38,616
Average daily concentrates produced (dry weight - t)	138	111	176	141
Concentrate copper grade (%)	18.39	18.45	19.86	19.01
Concentrate gold grade (g/t)	3.38	3.64	4.56	3.93
Concentrate silver grade (g/t)	239.60	235.57	433.15	317.87
Production cash cost per Cu lb eq (US\$) <sup>(1) (2)</sup>	1.02	1.13	0.56	0.84
Total cash cost per Cu lb eq (US\$) <sup>(2)</sup>	1.36	1.58	0.94	1.23
Total cash cost per Cu lb eq, net of by-products (US\$) <sup>(2)</sup>	0.91	0.95	0.32	0.66
<b>Offtake</b>				
Copper concentrates shipped (dry weight - t)	10,528	10,533	15,514	36,575
Cu lb eq shipped	5,180,122	5,458,367	8,546,480	19,184,969
Average copper price received (US\$/lb)	3.30	3.22	3.28	3.27

(1) Excludes selling expenses.

(2) Production cash cost per Cu lb eq, Total cash cost per Cu lb eq and Total cash cost per Cu lb eq, net of by-products, are non-GAAP measures. Please see definitions in the "Non-GAAP Measures" section.

**Zinc Circuit**

Increased levels of zinc were expected to appear as the orebody continued to be mined. In preparation, a Zinc Circuit was constructed in early 2010. In the early stages of the Zinc Circuit commissioning in May-June this year, it was found that acceptable copper/zinc separation was not being achieved using the 'recipe' initially chosen. As a result, the Zinc Circuit was temporarily suspended on August 13, 2010 and additional metallurgical testing was carried out to determine a better 'recipe' for metal separation and recovery.



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The objective of the commissioning process for the Zinc Circuit is to continuously make changes until the largest volume of concentrate (both copper and zinc) is produced with the highest grade and with the best metal recovery, taking into consideration the full extent of input factors.

Extensive metallurgical testing of the Canatuan ores has been conducted by reputable third parties and an optimum 'recipe' involving combinations of reagents and plant configurations for the process flow sheet has been decided.

The Company has resumed on-site testing, however, it is expected that commissioning of the revised process flow sheet could continue for some time. .

## **EXPLORATION**

Cesar Medina, Exploration Manager of TVIRD, is acting as the Qualified Person in compliance with NI 43-101 reporting requirements with respect to the company's exploration projects such as the Balabag Au and the Siennalynn Cu-Zn-Au projects. He has prepared and/or supervised the preparation of the scientific or technical information and confirms compliance with NI 43-101 requirements.

### **Greater Canatuan Tenement Area**

TVI controls an extensive 352 km<sup>2</sup> (219 mi<sup>2</sup>) land package surrounding the Canatuan mine that makes up the GCTA. The Canatuan orebody is a volcanogenic massive sulphide orebody and deposits of this type rarely occur in isolation. Accordingly, TVI believes the potential exists for continuing extension developments, or creating a "mining camp", within the GCTA. Initial exploration on the properties suggests that the land package includes a 40+ kilometre (25+ mile) strike length of the type of mineralization that hosts the Canatuan orebody. Management of TVI believes it is likely that similar Canatuan-style deposits exist within the area of the GCTA. Any mineable ore located in the area could economically be transported to the existing Canatuan plant for processing, which would extend the life-of-mine beyond the current estimate.

In January 2010, the Company established a partnership and strategic alliance with DMCI-CERI, a subsidiary of DACON Corporation (the "Partners"). In February 2010, the Partners signed a Joint Venture Agreement ("JVA") to conduct exploration, development and production of mineral deposits within EXPA 61 within the GCTA. Potential prospects so far identified within EXPA 61 lie within a 15 km radius trucking distance of the current Canatuan sulphide plant. Under the JVA, TVIRD will hold a 70% interest and will act as the operator, while DMCI will hold the remaining 30% interest.

In June 2010, the Partners finalized the initial work program for EXPA 61. The Partners have initiated three main activities under the work program: (a) obtaining Free Prior Informed Consent ("FPIC") from the affected indigenous communities in the area; (b) completing an airborne geophysical survey; and (c) completing the application for the Exploration Permit.

TVI has successfully secured the endorsement of the local council and municipal authorities for the program. Once the FPIC process is completed, all requirements will have been fulfilled for the issuance of the Exploration Permit. Helicopter-supported geophysical surveys have been ongoing over all the Company's Zamboanga tenements and are expected to be complete by late 2010 or early 2011.

As of the writing of this report, discussions with the indigenous people and the National Commission on Indigenous People are under way, leading to a Memorandum of Agreement and FPIC. Although the tribal communities are supportive, the process was slowed down by the national elections in May 2010, the local government elections of October 2010 and a change of relevant (monitoring and supervisory) government officials. Efforts are continuing in this regard.

### **Siennalynn**

On October 7, 2010, the Company announced the acquisition of rights to explore and subsequently acquire a highly prospective copper-zinc-gold property referred to as Siennalynn. TVIRD acquired the



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exploration rights over the property for an initial consideration of US\$1.2 million in cash, with the right to acquire a 100% interest in the property if a decision is made to proceed with mine development.

A reinterpretation of previous exploration data on the property from programs conducted by major international mining companies, together with recent field work conducted by TVI, has identified two types of exploration targets: near- surface showings that could provide material for immediate trucking to the Canatuan mill site; and potentially major hydrothermal deposits. These targets could add additional ore sources to extend and expand TVI's mining operations at Canatuan.

Drilling on the property commenced on October 19, 2010. The Stage 1 drilling program currently underway is designed to assess the extent and quality of near-surface mineralization, and to begin drilling a number of other near-by prospects that have potential for major new copper resources.

The Stage 1 program consists of seven holes at the near-surface Pinili prospect that has been the site of small-scale, direct-shipping-ore mining over the past few years. The Pinili prospect is a short trucking distance of about 25 kilometres (16 miles) from TVI's operating mine at Canatuan and could extend the mill life of the current project.

In addition, the Stage 1 program will test two targets at Nanao East and Nanao West to explore the tenement's potential to host intrusive-related copper mineralization, which if successful, would add major new resources to the Company's inventory.

It is anticipated that this drilling will be completed by mid-Q1, 2011, with assays and evaluations completed by the end of the same quarter. While Stage 1 drilling is ongoing, the exploration team will be conducting test pitting, soil sampling, trenching and mapping in preparation for the Stage 2 drill program.

In total, approximately 3,000 metres (9,842 feet) of exploratory drilling will be carried out by mid-2011 on prospects that could host hydrothermal copper mineralization. These prospects include Bailos, Abueva, Tatfu and Rodrige. The extent of this additional drilling will be determined as progress is evaluated during Stage 1.

[Click here to view Siennalynn project geology and prospects](#)

### **Balabag**

The development-stage Balabag gold project is another high priority project. The Balabag property covers an area of approximately 52 km<sup>2</sup> (32 mi<sup>2</sup>) and is situated approximately 75 kilometres (47 miles) east-northeast of the Canatuan mine.

In 2008, TVI commissioned Genivar Limited Partnership, an independent mining engineering consulting company, to conduct a scoping study on the Balabag property. Genivar presented TVI with the comprehensive scoping study titled "Scoping Study of the Balabag Project", which was prepared in accordance with NI 43-101 and based on the 43-101 Technical Report for the Mineral Resources at the Balabag Project of TVI Pacific Inc." filed August 9, 2007, and prepared by P.J. Lafleur Geo-Conseil Inc. The purpose of the scoping study was to assess the mining potential of a stand-alone commercial scale mining operation centred on the currently delineated Balabag deposit and to provide an order of magnitude of its economic potential. This report was filed with certain securities regulatory authorities in Canada on August 20, 2008, and is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

In February 2010, drilling resumed at the Balabag epithermal gold project focusing on the Tinago vein, the largest of three spatially related vein systems. This drill program was completed on June 17, 2010, with 30 holes drilled for a total of 3,196 metres (10,486 feet). The goal was to define a minimum of 50,000 gold equivalent ounces in the indicated category, allowing for an internal scoping study to define an economical start-up "Bootstrap" mine development program.

As the Company reported on October 25, 2010, recent assay results from the initial 30 hole, Phase 1 drill program, completed in late July 2010, support continued drilling at Balabag to further define the resources.



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Phase 2 drilling has been extended to approximately 55 new holes and is ongoing. The program includes further infill drilling in the core area of Tinago, where the initial 30 hole drill program was concentrated, and step out drill holes in the downdip mineralized zones identified in Phase 1. Phase 2 also includes infill drilling at the Miswi vein and infill and extension drilling at the Lalab vein. As the resource evaluation continues, more drill holes may be required to a development evaluation.

TVI has launched an internal scoping study<sup>(1)</sup> and expects to come to a decision regarding a "Bootstrap" mine development plan during Q1, 2011. The intent of the internal scoping study is to evaluate the engineering, the environmental and social requirements, the financial viability and the overall feasibility of the starter operation

The scoping study that was completed on the Balabag gold project in 2007 was based on a full-scale development concept. The new internal scoping study<sup>(1)</sup> being undertaken at Balabag is based on a "Bootstrap" development concept. Under the "Bootstrap", or phased development concept, an initial "starter" plant would be constructed, drawing ore feed from the core area, with the plant and mine being expanded in stages from internal cash flow to the extent that the resource supports.

(1) The intent of the internal scoping study referred to in this MD&A is to evaluate the feasibility of a "Bootstrap" operation at Balabag and to make a development decision. An earlier study was completed ("*Scoping Study of the Balabag Project*" filed August 20, 2008, prepared by Genivar Limited Partnership) which evaluated a full-scale operation.

TVI expects to update the NI 43-101 report during Q2, 2011, after receiving drill results from the Phase 2 program, which will allow an updated resource estimation, and after receiving the internal scoping study results.

[Click here to view the Balabag gold-silver project drill hole location map](#)

### **Tamarok - Tapisa**

The Tamarok copper-gold exploration project and the Tapisa exploration project are located 60 kilometres (37 miles) north-northeast of TVI's Balabag project and are within the Company's 1,240 km<sup>2</sup> (771 mi<sup>2</sup>) North Zamboanga tenement package.

In December 2009, the 507 hectare (1,253 acre) Mineral Production Sharing Agreement ("MPSA") encompassing the Tamarok copper-gold project was formally approved by the Secretary of the Department of Energy and Natural Resources of the Philippines. The MPSA was granted to the original claimholder with whom TVI has a contract to acquire full rights to the MPSA at TVI's election.

The approval of the MPSA at Tamarok allows TVI to advance exploration activities including geophysical surveys, systematic detailed geological investigations and drilling. A scout drilling program is planned to test subsurface continuity of outcropping porphyry copper-gold mineralization at Malachite Hill where, in an initial exploration program, a 38 metre (125 foot) continuous channel sample produced an average of 0.71% copper and 0.35 grams per tonne gold.

This package of landholdings was assembled with reference to the anticipated geological potential associated with the Sindangan-Cotabato fault system that hosts the world-scale Tampakan porphyry copper discovery currently being developed by Sagittarius Mines, Inc., a subsidiary of Xstrata.

To identify additional areas of concentrated mineralization for future exploration, the Company is currently conducting an airborne geophysical program over these tenements.

It is anticipated that drilling will begin on identified targets in the Tamarok area in early 2011.

### **Zamboanga Tenement Airborne Geophysical Surveys**

As indicated in the news release dated August 13, 2010, helicopter-supported geophysical surveys have been initiated covering all TVI's tenements in the Zamboanga peninsula.

As of October 31, 2010, the airborne surveys have flown over 5,093 line-kilometres (3,165 miles) acquiring magnetics/radiometric data covering 84,000 hectares (207,568 acres). The program has been



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divided into two parts: the magnetics/radiometrics program currently being flown over most of the TVIRD tenements; and a second program that will acquire Versatile Time-Domain Electromagnetic ("VTEM") data over selected, appropriate targets, including the GCTA.

Part 1 and Part 2 of the Airborne Surveys are expected to be completed late 2010 or early 2011.

[Click here to view airborne survey area map](#)

#### Other

Other potential exploration projects include the Bonbon epithermal gold prospect and the broader North Zamboanga tenements.

Bonbon is made up of a series of north-northwest trending quartz veinlets/stockworks spread over a 10 kilometre (6 mile) long by 2 kilometre (1 mile) wide area currently being worked in places by illegal small-scale miners. After completing the required permitting, the Company plans to prepare geological mapping and sampling, as well as geophysical surveys, in order to locate prospective drill targets.

The Company is also considering the opportunity to engage in joint venture relationships across the entire 1,240 km<sup>2</sup> (771 mi<sup>2</sup>) North Zamboanga tenements. A number of prospects of interest have been identified on these properties under the exploration program carried out by the former property owner. The Company continues to welcome, seek out and advance opportunities that may present beneficial relationships to advance exploration across its Philippine land package.

#### DRILLING COMPANY

TVI's drilling operations are owned and operated by Exploration Drilling Corporation ("EDCO"), a wholly-owned subsidiary located in the Philippines.

EDCO currently owns seven drill rigs that are being used on the Company's development and exploration projects. Seven more rigs are expected to arrive from Kyrgyzstan during Q1, 2011.

The sale agreement of the drilling assets of EDCO in Kyrgyzstan to an arm's-length third party was recently rescinded due to the non-fulfilment of the contract conditions on the part of the third party. EDCO is currently in the process of repossessing the drilling assets to the Philippines. The rigs are expected to leave the yard of the third party for the Philippines sometime in November 2010.

#### QUARTERLY FINANCIAL INFORMATION

(in thousands of Canadian dollars, except per share information)

	Net Revenue	Net Income (Loss)	Net Income (Loss) per Share	
			Basic	Diluted
September 30, 2010	\$ 15,666	\$ 2,911 <sup>(1)</sup>	\$ 0.006	\$ 0.005
June 30, 2010	16,453	(1,141)	(0.002)	(0.002)
March 31, 2010	26,184	8,390	0.018	0.015
December 31, 2009	22,956	9,743	0.020	0.018
September 30, 2009	25,707	9,917	0.021	0.019
June 30, 2009	11,378	676	0.001	0.001
March 31, 2009	7,063	(2,014)	(0.005)	(0.005)
December 31, 2008	111	(5,220)	(0.013)	(0.013)

(1) Net of \$22,042 share of the non-controlling interests. Please see the "Non-controlling interests" section below.



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Net Revenue for the periods ending June 30 and September 30, 2010 were lower than previous quarters for two reasons:

- A change in the shipment schedule, from every 4 weeks to approximately every 6 weeks, was implemented to allow for the planned interruptions in production that were a result of the commissioning process of the zinc circuit; and
- In order to not exceed the maximum zinc content limits specified by our offtake agreement for the copper concentrates that were shipped, ore with lesser amounts of zinc has been processed starting in April. This ore also has lower amounts of copper which, in part, accounts for the lower revenue for the past six months. It is expected that with the successful commissioning of the zinc circuit, ore with higher copper grades will again be processed.

### **Revenue**

The gossan mining and milling operations ceased in April 2008. Revenues in 2008 relate to miscellaneous asset sales and interest revenue.

In Q1, 2009, the Company completed its first shipment of copper concentrates from its Canatuan Sulphide Project and recognized the revenue from the sale in the same quarter. This was followed by the second and third shipments, and a portion of the fourth shipment in Q2, 2009, resulting in higher revenue for the second quarter. Higher revenues were realized in Q3, 2009, representing the remainder of the fourth shipment plus the fifth to seventh shipments of copper concentrates. Revenue in Q4, 2009 was slightly lower since it consists of only three shipments as compared to the previous quarter.

In Q1, 2010, three shipments were completed for a total of 15,514 dry metric tonnes at an average copper price of US\$3.28/lb for total gross revenue of US\$26.64 million. These were followed by two additional shipments in Q2, 2010 for 10,533 dry metric tonnes at an average copper price of US\$3.22/lb for total gross revenue of US\$16.26 million (after final assay and price adjustment).

Two shipments were also completed in Q3, 2010, for a total of 10,528 dry metric tonnes at an average copper price of US\$3.30 for total gross revenue of US\$16.13 million, which is relatively comparable with the previous quarter.

### **Net Income (Loss)**

Throughout 2008, the Company was focused on completing the construction of the Canatuan Sulphide Project while trying to minimize its general and administrative costs. In Q4, 2008, the Company incurred additional costs required to commission the sulphide starter plant, which was powered-up as planned by the end of November 2008.

The Company declared commercial operations on the Canatuan Sulphide Project on March 1, 2009, and completed its first shipment in the same month. The Company has continued to improve its operating throughput and concentrate production, with the only exceptions being required scheduled shutdowns in Q2, 2010 when the Zinc Circuit began initial commissioning. With its continuous improvement programs, TVI will continue to optimize its throughput in an effort to offset the declining feed grades.

The average throughput in Q3, 2010, increased to 2,375 dry metric tonnes per day from the daily average throughput of 2,064 dry metric tonnes per day in Q2, 2010. This was made possible due to the higher plant availability achieved in Q3, 2010 and the continuous process optimization program of the Company. Plant availability in Q2, 2010 was lower since scheduled shutdowns relating to the zinc circuit commissioning were implemented. Recoveries for all the metals also went up with copper recovery posting a quarter over quarter increase of 7.02% (from 81.41% in Q2 to 88.43% in Q3). The combined effects of the improved throughput and recoveries led to a 24% increase in the copper pound equivalent metals produced. Consequently, production cash cost per Cu lb eq decreased from US\$1.13 in Q2 to US\$1.02 in Q3.



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	Average copper price received (US\$/lb)	Production cash cost <sup>(1)</sup> (US\$/Cu lb eq)
Q3 2010	3.30	1.02
Q2 2010	3.22	1.13
Q1 2010	3.28	0.56
Q4 2009	3.05	0.63
Q3 2009	2.67	0.55
Q2 2009	2.11	0.58
Q1 2009	1.77	0.76

(1) Excludes selling expenses. Production cash cost per copper pound equivalent is a non-GAAP measure. Please see definitions in the "Non-GAAP Measures" section.

In June 2010, the Company completed the repayment of the US\$30.1 million five-year term loan facility agreement ("Term Facility"), entered into on January 20, 2009 with the LIM Asia Arbitrage Fund Inc. and LIM Asia Special Situations Master Fund Limited ("LIM"). In connection with the Term Facility, the Company entered into an Advisory Agreement with a third party (the "Advisor").

During the first half of 2010, the Company made five voluntary principal payments totalling US\$22.3 million and a scheduled payment of US\$2.0 million. The Company also paid US\$1.1 million in interest gross of tax, US\$7.2 million in prepayment premiums gross of tax and US\$1.3 million in advisory fees. The Term Facility was paid in full in June 2010, which also terminated the Advisory Agreement.

In Q3, 2010, the Company posted a net income of \$2.9 million compared to a net loss of \$1.1 million in Q2, 2010, an increase of \$4.0 million quarter over quarter. This increase results from the savings of \$5.2 million in one-time finance charges, mainly relating to the early pay-out of the Term Facility, partially offset by modestly lower revenue due to lower metals shipped during the quarter (5.2 million Cu lbs eq in Q3 compared to 5.5 million Cu lbs eq in Q2). Total production for Q3 was 6.2 million Cu lb eq.

	Quarter ended Sept. 30, 2010 (\$millions)	Quarter ended June 30, 2010 (\$millions)
Reported net income	2.9	(1.1)
One-time finance charges	-	5.2
Exploration costs	1.1	0.8
Amortization and accretion	3.1	2.7
Earnings before one-time finance charges, exploration costs & amortization and accretion	7.1	7.6

### Non-controlling interests

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 Mineral Processing Inc., including its interest in TVIRD and nineteen inactive Philippine subsidiaries. Of the issued and outstanding shares of each of the inactive nineteen 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. These companies have been consolidated as they meet the criteria of variable interest entities and TVI is the primary beneficiary in accordance with Canadian GAAP. Non-controlling interests in less than wholly-owned subsidiaries of the Company comprise the interest held by the Philippine residents or companies.

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



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the factors requiring the consolidation of the entity. The Class A shares, held by the Philippine residents or companies, are entitled to a cumulative preferred dividend equal 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 \$22,042, was recognized during the nine months ended September 30, 2010. Class B shares, largely owned by TVI Marketing, that is indirectly wholly owned by TVI Pacific Inc., are entitled to any remaining profits after allocating the share of non-controlling interests.

### **CONSOLIDATED RESULTS OF OPERATIONS**

During the nine months ended September 30, 2010, TVI had a consolidated net income of \$10.2 million compared to a net income of \$8.6 million in the same period of 2009. During the period ended September 30, 2010, the mining segment produced net income of \$28.5 million. Adding back the non-cash amortization and accretion expense of \$8.5 million, the mine segment produced net income before amortization and accretion expense of \$37.0 million.

During the nine months ended September 30, 2010, the Canatuan mine generated net revenues of \$58.3 million from the Canatuan Sulphide Project consisting of seven completed shipments of copper concentrates to TVI's metal offtake partner, with whom the Company has an offtake agreement covering all copper concentrate production of the existing Canatuan mine. The Company generated \$44.1 million during the same period of 2009 representing seven completed shipments, which started when the sulphide operations commenced in March 2009. Net revenues are based upon gross revenues net of treatment, refining and penalties from the buyer.

Mining, milling and other expenses for the nine months ended September 30, 2010, were about \$19.8 million. These expenses do not include treatment, refining and penalties from the buyer as these costs are netted against revenues. Expenses during the current period are not comparable to those incurred during the same period in 2009 since the expenses from January 1, 2009, to February 28, 2009, were deferred until the start of the commercial operations on March 1, 2009.

During the nine months ended September 30, 2009, the exploration expenses were \$0.3 million which were lower as the Company focused on the completion of the Canatuan Sulphide Project. During the same period in 2010, exploration expenses totalled \$3.6 million due to a more intensive exploration program in the Balabag project and acquisition of the new Siennialyn project as highlighted in the above "Exploration" section.

During the nine months ended September 30, 2010, administrative and general costs amounted to \$5.9 million which is lower than \$7.0 million incurred during the same period in 2009 because of the decrease in advisory fee that ended upon full settlement of the Term Facility in June 2010.

Amortization and accretion expense for the amortization of the sulphide plant, which is recognized on a unit-of-production basis, were approximately \$8.6 million during the nine months ended September 30, 2010. These were higher compared to the \$4.9 million recognized during the same period in 2009, because of higher throughput compared to last year, since commercial operations did not begin until March 1, 2009.

During the period ended September 30, 2010, the Company recognized approximately \$9.5 million in interest expense, which is higher than the \$5.6 million incurred during same period in 2009. This is mainly due to the prepayment premiums paid during the voluntary prepayments, which included the final repayment on the term loan facility incurred during Q2, 2010.



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## CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash Position

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating cash flow	\$ 377,680	\$ 11,396,906	\$ 16,912,564	\$ 10,868,292
Change in working capital	5,216,787	1,798,209	5,320,866	3,138,802
Operating cash flow before change in working capital	5,594,467	13,195,115	22,233,430	14,007,094
Expenditures on property and equipment	(1,216,092)	(1,577,956)	(6,202,786)	(2,950,595)
Free cash flow <sup>(1)</sup>	\$ 4,378,375	\$ 11,617,159	\$ 16,030,644	\$ 11,056,499
Common shares outstanding	487,863,663	478,946,181	487,863,663	478,946,181
Free cash flow per share	\$ 0.009	\$ 0.024	\$ 0.033	\$ 0.023

(1) Free cash flow is a non-GAAP measure. Please see definitions in the "Non-GAAP Measures" section.

The surplus of funds from operations for the nine months ended September 30, 2010, was attributable to revenue from the copper concentrate shipments during the nine months. A portion of the cash flow surplus and proceeds from the short term loans were used in the final voluntary prepayment of the Term Facility in June 2010 (as discussed below).

At September 30, 2010, the Company held \$4.4 million in cash that it can reinvest into further growth in the Company.

### Term Facility and Short-term Loans

In June 2010, the Company completed repayment on the US\$30.1 million five-year Term Facility, entered into on January 20, 2009 with LIM.

The funds borrowed under the Term Facility bore interest at the rate of 10% per annum calculated on the original principal balance of US\$30.1 million, 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. Voluntary prepayments were subject to a 25% prepayment premium.

In connection with the Term Facility, the Company entered into an Advisory Agreement with the Advisor. The Advisor was entitled to a fee equal to 10% per year of the original Facility amount of US\$30.1 million. However, voluntary prepayments decreased the principal balance on which the advisory fee was calculated. In addition, the Agreement allowed for profit participation of 40% of any cash surplus in TVIRD commencing December 31, 2010. Voluntary prepayments of principal decreased the percentage of profit participation proportionately.

During the first half of 2010, the Company made five voluntary principal payments totalling US\$22.3 million, made a scheduled payment of US\$2.0 million, paid US\$1.1 million interest gross of tax, paid US\$7.2 million prepayment premiums gross of tax, and paid US\$1.3 million in advisory fees. The Term Facility was paid in full in June 2010, which also terminated the Advisory Agreement.

In order to facilitate the timely repayment of the Term Facility, the Company acquired short-term loans from a major Philippine bank. These loans have annual interest rates much lower than the Term Facility.



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### Short Term Debt Facilities

The Company acquired short-term loans from a major Philippine bank. As at September 30, 2010, the total outstanding was US\$7.6 million (CDN\$7.8 million).

Loan Date	Principal Loan Outstanding (US\$)	Interest Rate (% per annum)	Term	Security
April 20, 2010	3,300,000	4.30	180 days	Offtake agreement
April 29, 2010	2,250,000	4.33	1 year (four equal quarterly payments)	Offtake agreement
June 21, 2010	2,000,000	4.54	1 year	Offtake agreement

- In April 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 is secured by the offtake agreement. The amount owing as of September 30, 2010, was US\$3.3 million. This facility was subsequently paid on October 15, 2010. On the same day, the same facility was renewed by the same Philippine bank and was immediately utilized by the Company. The renewed facility is payable in 180 days (from October 15, 2010), bearing a lower interest rate of 3.3% per annum subject to quarterly re-pricing.
- The Company also obtained two short-term loan facilities from a major Philippine bank. The 1<sup>st</sup> short-term loan amounting to US\$3.0 million was obtained in April 2010 and is payable over four equal quarterly payments starting 90 days from drawdown date bearing interest at 4.33% per annum. The first scheduled quarterly payment in the amount of US\$750,000 was made on July 28, 2010. Another scheduled quarterly payment in the same amount of US\$750,000 was made on October 27, 2010. The other short term loan, amounting to US\$2.0 million, was obtained in June 2010 and is payable in 360 days, bearing interest of 4.54% per annum. Both of these short-term loans are secured by the offtake agreement. The amount owing as of September 30, 2010, was US\$4.3 million.

### Letter of Credit Facilities

- The Company has letter of credit facilities with a major Philippine bank which accrue interest at a combined interest rate of 8.25% per annum and are payable over four equal monthly instalments starting 90 days from the withdrawal dates. The funds are used in the normal course of business operations. The total amount payable to the bank at September 30, 2010, was US\$821,735 (CDN\$846,223).

### Capital Requirements

The majority of fixed assets are new and the remaining useful life will be over the life of the Sulphide Project. Over time, the Company expects to incur annual maintenance capital expenditures in an amount that approximates our amortization of this equipment for each period adjusted for inflation.

For 2010, the Company's capital expenditure program has been tightly controlled and is expected to range between \$8 million and \$10 million. The Company expects the capital expenditure program to be funded by cash provided by operating activities.



## **RAPU RAPU**

The Rapu Rapu mine, located in the province of Albay in the central eastern Philippines, is a polymetallic mining project. In December 1999, the Company assigned the Lafayette Group its mining rights and participating interest in the Rapu Rapu joint venture agreement dated November 1998. As part of the consideration for the assignment, TVIRD was granted a 2.5% net smelter royalty ("NSR").

However, on February 6, 2008, the Lafayette Group filed a petition for corporate rehabilitation. As a result, the Pasig City Regional Trial Court issued a stay order on all claims against the Lafayette Group. On March 19, 2008, TVIRD filed a notice of claim against the Lafayette Group for unpaid NSR.

On September 17, 2009, the Pasig City Regional Trial Court approved the final rehabilitation plan of the Lafayette Group, which recognizes the royalty claims of TVIRD beginning in 2012; however, the plan does not recognize TVIRD's royalty claims prior 2012. The Company filed an appeal to have royalty claims prior to 2012 recognized and expects a decision from the Court of Appeals.

## **OUTLOOK**

### **Balabag**

A second, Phase 2 drilling program of 55 new holes began at Balabag on July 26, 2010, and includes further infill drilling in the core area of the Tinago vein and step out drilling in the downdip mineralized zones identified in Phase 1. Phase 2 also includes infill drilling at the Miswi vein and infill and extension drilling at the Lalab vein. An internal scoping study has been launched and TVI expects to come to a decision regarding a "Bootstrap" mine development plan by Q1, 2011. Social and environmental baseline studies are currently underway along with additional metallurgical testing.

### **Siennalynn**

TVI has begun drilling at the recently acquired, highly prospective Siennalynn property. The Stage 1 drilling program underway is designed to assess the extent and quality of the near-surface mineralization and to begin drilling a number of prospects that have potential for major new copper resources.

It is anticipated that this drilling will be completed by mid-Q1, 2011, with assays and evaluations completed by the end of the same quarter. While Stage 1 drilling is ongoing, the exploration team will be conducting test pitting, soil sampling, trenching and mapping, in preparation for the Stage 2 drill program.

### **North Zamboanga Tenement Area**

In December 2009, the Tamarok MPSA was granted to the original claimholder with whom TVIRD has a contract to acquire full rights to the MPSA at TVIRD's election. Drilling is expected to begin on identified targets in the Tamarok area in early 2011.

Review of regional data surveys previously conducted over the Tamarok-Tapisa tenements show several interesting clusters of combined geochemical and structural anomalies. Exploration Permit applications over the combined anomalies identified by multiple exploration technologies, will be submitted to Department of Environment and Natural Resources - Mines and Geosciences Bureau for processing.

### **Zamboanga Tenement Airborne Geophysical Surveys**

Helicopter-supported geophysical surveys have been initiated covering all TVI's tenements in the Zamboanga peninsula.

As of October 31, 2010, the airborne surveys have flown over 5,093 line-kilometres (3,165 miles) acquiring magnetics/radiometric data covering 84,000 hectares (207,568 acres). The program has been divided into two parts: the magnetics/radiometrics program currently being flown over most of the TVIRD



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tenements; and a second program that will acquire VTEM data over selected, appropriate targets, including the GCTA.

The balance of the 131,308-hectare (324,469 acre) Part 1 program is expected to be surveyed during Q4, 2010 and Part 2 of the program is anticipated to be completed by early 2011, barring any unforeseen circumstances.

### **Drilling Company**

The current fleet of seven drill rigs will increase to fourteen drill rigs upon the arrival of seven more rigs from Kyrgyzstan during Q1, 2011. These rigs are expected to augment exploration activities at Siennalynn, Balabag and Tamarok.

### **NON-GAAP MEASURES**

Funds from operations is a non-GAAP measure that represents cash generated from operating activities before changes in working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds from operations is a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds from operations may not be comparable to similar measures used by other companies.

Free cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in working capital, less cash expenditures on property and equipment. Free cash flow should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that free cash flow is a useful measure that represents cash available for reinvestment or growth after considering all the expenditures necessary to maintain the Company's asset base.

Net income before amortization and accretion expense is a non-GAAP measure that represents income before non-cash expenses in amortization and accretion expense. This measure should not be considered an alternative to, or more meaningful than, net income. Management believes that net income before amortization and accretion expense is a useful supplemental measure to analyze the Company's ability to generate cash income. This measure may not be comparable to similar measures used by other companies.

Production cash cost, total cash cost, and total cash cost net of by-products are non-GAAP measures that represent the cash cost to produce a Cu lb eq. These measures should not be considered alternatives to, or more meaningful than the mining, milling and other expenses income statement line item. Management believes that production cash cost, total cash cost, and total cash cost net of by-products are useful supplemental measures to monitor operating costs and cash profitability. These measures may not be comparable to similar measures used by other companies.



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The following table shows a reconciliation of the calculation of production cash cost, total cash cost, and total cash cost net of by-products:

	Quarter ended Sept. 30, 2010	Quarter ended June 30, 2010	Quarter ended March 31, 2010	Year to date Sept. 30, 2010
Copper pound equivalent	6,249,498	5,035,688	8,841,433	20,126,618
Average quarterly rate (CDN\$/US\$)	1.03	1.03	1.04	1.03
Mining, milling, and other expenses	\$ 6,210,882	\$ 6,641,258	\$ 6,938,513	\$ 19,790,653
Adjustment for change in inventory	1,118,921	258,602	142,895	1,520,418
Indirect administrative costs	607,543	468,985	372,380	1,448,908
Selling expenses	(1,366,346)	(1,513,007)	(2,308,457)	(5,187,810)
Drilling expenses	(9,697)	5,813	3,884	-
Production cash cost	6,561,303	5,861,651	5,149,215	17,572,169
Treatment, refining, and other charges	855,362	861,996	1,206,232	2,923,590
Selling expenses	1,366,346	1,513,007	2,308,457	5,187,810
Total cash cost	8,783,011	8,236,654	8,663,904	25,683,569
Gross revenue - gold	(1,316,504)	(1,632,133)	(2,367,269)	(5,315,906)
Gross revenue - silver	(1,565,725)	(1,655,505)	(3,344,655)	(6,565,885)
Total cash cost net of by-products	\$ 5,900,782	\$ 4,949,016	\$ 2,951,980	\$ 13,801,778
(US\$/Cu lb eq):				
Production cash cost	1.02	1.13	0.56	0.84
Total cash cost	1.36	1.58	0.94	1.23
Total cash cost, net of by-products	0.91	0.95	0.32	0.66

The following are the commodity prices used in the calculation of the copper pound equivalent:

	Q1 2010 Average	3/31/10 Closing	Q2 2010 Average	6/30/10 Closing	Q3 2010 Average	9/30/10 Closing	Year to date Average 9/30/10
Copper (US\$/lb)	3.28	3.55	3.22	2.96	3.30	3.65	3.27
Gold (US\$/oz)	1,117.79	1,112.50	1,276.48	1,242.25	1,257.85	1,309.00	1,196.92
Silver (US\$/oz)	16.78	17.50	20.76	18.74	20.55	22.07	18.49

**RECENTLY ISSUED ACCOUNTING STANDARDS UNDER CANADIAN GAAP**

The following standards will be effective for the Company's year beginning on January 1, 2011:

**Business Combinations, Consolidated Financial Statements and Non-Controlling Interests**

Section 1582 – “Business Combinations”, 1601 – “Consolidated Financial Statements”, and 1602 – “Non-Controlling Interests” replace Section 1581 – “Business Combinations”, and 1600 – “Consolidated Financial Statements”. Section 1582 is effective for business combinations for acquisition dates on or after January 1, 2011. Earlier adoption is permitted, provided all three new standards are adopted simultaneously. The new standards are the Canadian equivalent of IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements”. Section 1582 requires equity instruments issued as part of the purchase consideration to be measured at fair value at the acquisition date, rather than the date when the acquisition was agreed to and announced. In addition, most acquisition costs are expensed as incurred, instead of being included in the purchase consideration. The new standard also requires non-controlling interests to be measured at fair value instead of carrying amounts. Section 1602 provides guidance on the treatment of non-controlling interests after acquisition. Section 1601 carries forward existing guidance on the preparation of consolidated financial statements, other than non-controlling interests. Section 1602 is the equivalent of International Accounting Standard 27 – “Consolidated and Separate Financial Statements”. The standards apply to interim and annual financial



statements relating to fiscal years beginning on or after January 1, 2011. The impact of the new standards and the option to adopt them early will be assessed as part of our International Financial Reporting Standards conversion.

## **CONVERGENCE WITH INTERNATIONAL REPORTING STANDARDS**

### **Transition to IFRS from GAAP**

The Canadian Accounting Standards Board has confirmed January 1, 2011, as the date when the International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises. Adoption of IFRS from Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact the reported financial results. The Company's goal is to make policy changes that are compliant with IFRS, but also provide meaningful information to shareholders. The Company's Philippine affiliates have previously implemented convergence with IFRS as required under local statutory reporting purposes.

### **IFRS Conversion**

The Company has developed a changeover plan in three phases and set out activities to be performed in each phase over the life of the project.

- Assessment phase: Identify the differences between Canadian GAAP and IFRS that may impact the Company. This phase has been completed.
- Design phase: Complete analysis of the differences between TVI accounting policies and IFRS to provide a basis for accounting policy recommendations, the development of a strategy for dual Canadian GAAP and IFRS reporting during 2010, changeover to IFRS in 2011 and IFRS training for key finance personnel.
- Implementation phase: Milestones will include the implementation of our 2010 dual reporting systems strategy, the amendment and testing of internal controls over financial reporting and disclosure controls and procedures impacted by accounting policy changes, the implementation of our internal and external communication plans and the preparation of an opening balance sheet and comparative data under IFRS, with reconciliations from Canadian GAAP.

The Company continues to monitor and review the impact of the convergence of Canadian GAAP and IFRS. The Company's external auditors are also reviewing the Company assessment of the impact of the IFRS conversion.

### **Differences between IFRS and Canadian GAAP**

The Company has identified the areas noted below as those expected to have the most significant impact on the financial statements. The Company is currently in the process of quantifying these differences in order to prepare an opening balance sheet under IFRS as of the above-mentioned transition date. These areas do not represent a complete list of expected changes. Changes to Canadian GAAP and IFRS standards may occur prior to the changeover date, the differences and impacts described below may be subject to change.

#### *Basis of Consolidation*

TVI currently consolidates its Philippine affiliates in accordance with Canadian GAAP (Accounting Guideline 15 – Consolidation of Variable Interest Entities). Upon adoption of IFRS, the consolidation will follow the guidance under International Accounting Standard ("IAS") 27, *Consolidated and Separate Financial Statements*. Under IFRS, control is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto

control. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity, similar to Canadian GAAP. The Company is continuing its evaluation of impact of such difference, but expects that there will be no change in the basis of consolidating its Philippine affiliates.

#### *Non-controlling Interests*

Canadian GAAP requires that when losses applicable to the non-controlling interest in subsidiaries exceed the non-controlling interest's carrying value in subsidiaries, the excess and any further losses will be fully absorbed by the Company. The non-controlling interest arising on consolidation will not be recognized until such time as previously absorbed losses of these companies are recovered. Upon adoption of IFRS in 2011, total other comprehensive income attributable to non-controlling interest to be presented as an allocation of comprehensive income for the period. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if this causes the non-controlling interest to be in a deficit position. Profits after the transition date will be attributed to the non-controlling interest based on its earnings entitlement irrespective of its attributed losses that have been previously absorbed by the Company. The Company continues to evaluate the impact of this difference and expects to present non-controlling interest upon transition to IFRS, subject to exception for first-time adopters.

#### *Functional Currency*

Under Canadian GAAP, there are two types of foreign operations: integrated and self-sustaining. The Company's Philippine affiliates are currently considered self-sustaining foreign operations in the consolidated financial statements. Upon adoption of IFRS in 2011, there will no longer be a distinction between integrated or self-sustaining affiliates. The translation will follow the guidance in IAS 21, *The Effects of Changes in Foreign Exchange Rates*, particularly on the use of presentation currency other than the functional currency, which requires translation of assets and liabilities at the rate on the balance sheet date, and income and expenses at rates on transaction dates. This is similar to the current method for translation of self-sustaining foreign operations under Canadian GAAP, which the consolidated financial statements currently follow. Therefore, there will be no expected change in the method of translating balances for consolidation purposes.

#### *Impairment of property, plant and equipment*

Under Canadian GAAP, whenever the estimated future cash flows on an undiscounted basis of a property is less than the carrying amount of the property, an impairment loss is measured and recorded based on fair values. Under IFRS, IAS 36 *Impairment of Assets* requires an impairment charge to be recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value in use, is less than carrying amount. The impairment charge under IFRS is equal to the amount by which the carrying amount exceeds the recoverable amount. The difference in testing and determining an impairment may result in more frequent impairment charges, where carrying values of assets may have been supported under Canadian GAAP on an undiscounted cash flow basis, but cannot be supported on a discounted cash flow basis. IAS 36 also requires the reversal of any previous impairment losses where circumstances requiring the impairment charge have changed and reversed. Canadian GAAP does not permit the reversal of impairment losses in any circumstance. The Company expects no significant impact to the consolidated financial statements.

#### *Financial Instruments*

IFRS 7 generally has more comprehensive disclosure requirements than Section 3861. IFRS 7: (i) requires entities to disclose information that enables users of their financial statements to evaluate the significance of financial instruments, rather than specific contractual terms and conditions of financial instruments; (ii) requires disclosures about financial instruments classified into (as well as out of) a fair value classification; (iii) requires specific disclosures about collateral; (iv) requires disclosure of the existence of multiple embedded derivatives whose values are interdependent, when these are contained

in an instrument having both a liability and an equity component; (v) does not encourage (or require) disclosures about average aggregate carrying amounts during the year, average aggregate principal during the year, or average aggregate fair value during the year; (vi) requires disclosure of the disposition of any inception profit that might result from the use of a valuation technique used to measure a financial instrument that has no active market price; (vii) requires extensive disclosures about exposures to liquidity, currency and other price risks; and (viii) requires an analysis of the sensitivity of net income to possible changes in market risk factors. The Company expects to disclose these specific items in its IFRS consolidated financial statements.

#### *Employee benefits*

Under Canadian GAAP, liabilities and expenses for vested past service costs under a defined benefit plan generally are recognized over the expected average remaining service period. Liabilities and expenses for unvested past service costs under a defined benefit plan generally are recognized over the expected average remaining service period. Under IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately. Liabilities and expenses for unvested past service costs under a defined benefit plan are recognized over the vesting period. The Company expects to adjust any difference in the recorded past service cost upon transition to IFRS.

For short term benefits, a constructive obligation under IFRSs may be broader than a substantive commitment under Canadian GAAP. The employee benefits standard applies to those employee benefits provided under formal plans and agreements between an entity and its employees, under legislation or through industry arrangements, including those provided under informal practices that give rise to constructive obligations. The short term benefits of the Philippine entities are already accounted for under IFRS. The Company expects that such difference will not have significant impact to the consolidated financial statements.

#### *Share based compensation*

For 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, provided that compensation then is recognised on a straight-line basis, subject to at least the value of the vested portion of the award being recognised at each reporting date. An entity can also choose to accrue compensation cost as if all instruments granted were expected to vest and recognise 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. The Company does not expect such difference to be material upon conversion to IFRS.

#### *Contingent liabilities*

Under Canadian GAAP, once an outflow of resources in respect of a loss contingency becomes likely, the resulting obligation is recognised in the statement of financial position as a liability, like IFRS. However, unlike IFRSs, the term "likely" is a higher recognition threshold than "more likely than not". The Company expects to provide additional disclosures on the IFRS consolidated financial statements.

#### **First time adoption of IFRS**

The Company's adoption of IFRS will require the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively, with specific mandatory exceptions and a limited number of optional exemptions.

The following is the mandatory IFRS 1 exception relevant to the Company and is also expected to be applied by the Company in its first IFRS financial statements:

### *Non-controlling interests*

The exception stipulates that a first-time adopter should apply the following requirements of IAS 27, prospectively from the date of transition to IFRS: (a) 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; (b) the requirements regarding accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and (c) the requirements regarding the accounting for a loss of control over a subsidiary, and the related requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Company shall adopt the exception and follow the IAS 27 requirements prospectively. It continues to evaluate the impact of this difference and expects to present non-controlling interest upon transition to IFRS. Please see the "Non-controlling interests" section above.

The following paragraphs outline the significant optional IFRS 1 exemptions the Company expects to apply in its first IFRS financial statements:

### *Assets and liabilities of subsidiaries, associates and joint ventures*

If a parent becomes a first-time adopter later than its subsidiary, the parent should, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amount as in the financial statements of the subsidiary, after adjusting for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The Philippine subsidiaries have adopted Philippines Accounting Standards ("PAS") in 2005 as required under local statutory reporting purposes. PAS have essentially converged with IFRS. The Company elects this exemption by preparing the consolidated financial statements based on the carrying amount in the subsidiaries' books at the transition date, adjusted by the consolidated adjusting entries.

### *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. As a result of applying this election, the Company will be required to restate any business combinations effected during the 2010 year which were originally reported under Canadian GAAP, for comparative reporting in 2011. The alternative, retrospective application of IFRS 3, would require the restatement of all business combinations occurring prior to the date of transition to IFRS in addition to those occurring on or after the transition date. The Company expects to elect the business combinations exemption and adopt IFRS 3 prospectively beginning on the transition date. Nevertheless, the provisions in IFRS 3 are generally not applicable in the previous periods. There shall be no adjustment required to the statement of financial position on the transition date. The election of this exemption, however, does not preclude the Company from assessing its assets that were acquired and liabilities assumed through business combinations occurring prior to the Company's transition date to comply with IFRS requirements in establishing the Company's opening balance sheet.

### *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 previously capitalized borrowing costs are from the Philippine entities whose accounting policy on borrowing costs are aligned with IFRS. Therefore, no adjustment is necessary in the opening balance sheet and any further changes, as permitted by the standard, will be applied prospectively.

### *Fair value of revaluation as deemed cost*

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value or under certain circumstances using a previous GAAP revaluation, as opposed to



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recreating depreciated cost under IFRS. Most of the assets are with the Philippine operating entities which are already presenting separate financial statements in accordance with IFRS. Therefore, this exception will not be used as the Company expects to continue using the carrying value of assets in its consolidated financial statements.

*Foreign exchange*

IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with the balance being transferred to opening retained earnings. Future gains or losses on subsequent disposal of any foreign operations shall exclude translation differences arising from periods prior to the date of transition to IFRS. The Company does not expect to elect the exemption considering that it was able to account the cumulative translation difference and there are no significant differences between the treatments under both standards.

*Share-based payment transactions*

A first-time adopter has an option not to apply IFRS 2 Share-based Payment retrospectively to equity instruments (equity-settled transactions) granted on or before November 7, 2002. IFRS 1 provides an additional 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. However, an entity may apply IFRS 2 to such equity instruments if it has previously disclosed publicly the fair value of those equity instruments, determined at measurement date, as defined in IFRS 2. The Company plans to elect this exemption to its opening balance sheet.

*Employee future benefits*

IFRS provides an exemption that allows a company transitioning to IFRS to recognize all unamortized actuarial gains and losses in its opening balance sheet on transition. However, if the parent becomes a first-time adopter later than its subsidiary and the subsidiary has made an unreserved statement of compliance with IFRSs in previous years, that subsidiary's defined benefit corridor cannot be reset to zero for the purposes of the consolidated financial statements. The employee benefits of the Philippine entities are already accounted for under IFRS. The consolidated financial statements shall use the measurements that the Philippine entities have already used. Therefore, the exemption has no impact to the opening balance sheet. In addition, 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 will use this exemption.

**Other accounting policies**

The Company continues to evaluate the impact of IFRS adoption on other areas, such as the accounting for income taxes and decommissioning liabilities (asset retirement obligations), which may result in significant differences from currently adopted accounting policies.

**Other**

The Company has done a preliminary assessment that the adoption of IFRS will have on internal controls over financial reporting, disclosure controls and procedures, business activities and IT systems. TVI does not expect any material changes to these areas since the main operations and majority of material transactions occur at the TVIRD level. TVIRD is a Philippine affiliate that implemented conversion to PAS in 2005 which is essentially converged with IFRS; therefore, the Company expects that all controls, procedures, activities and systems have already been designed to ensure the Company is in accordance with IFRS. The Company continues to perform more detailed assessments to determine whether there will be any changes to these areas once IFRS has been adopted.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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**COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform to the presentation in the current period.

**CRITICAL ACCOUNTING ESTIMATES**

Management is responsible for applying judgment in preparing accounting estimates. Certain estimates and related disclosures included within the consolidated financial statements are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. The following are significant accounting estimates:

- The recorded amortization expense is based on the estimated useful lives of long-lived assets. The estimate that most significantly affects the measurement of amortization is quantities of measured and probable mineral reserves, which is used in the computation of amortization expense based on the unit-of-production method. The estimation of quantities of mineral reserves is complex, requiring significant subjective assumptions that arise from the evaluation of geological, geophysical, engineering and economic data for a given orebody. This data could change over time as a result of numerous factors, including new information gained from development activities, evolving production history and a reassessment of the viability of production under different economic conditions.
- The carrying values of mining assets are based on whether or not the value is greater than the future undiscounted cash flows to be generated from the assets. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are written off against current earnings. Estimates must be made in establishing the depletion and depreciation of property, plant and equipment as well as assessing the fair value of the liability for asset retirement obligations relating to the Canatuan mine.
- 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. Management must estimate the volatility, expected life and risk-free interest rates in using the model to assess the fair value of stock options.
- Asset retirement obligations arise from the acquisition, development, construction and normal operation of mining property and equipment due to government controls and regulations that protect the environment and public safety on the closure and reclamation of mining properties. Management must estimate the timing and expected cash flows when retirement obligations are incurred, which are updated to reflect changes in facts and circumstances

**OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any off balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

All related party transactions are approved by the independent directors of the Board. Transactions with related parties are recorded at the exchange amounts, which approximate fair value.

During the three and nine months ended September 30, 2010, Seajay Management Enterprises Ltd. ("Seajay") charged the Company \$107,316 and \$360,134 for management fees for services of the President and support staff. At the end of the period, the amount payable to Seajay was \$52,939.

During the three and nine months ended September 30, 2010, the Company charged \$28,156 and \$96,192 to a corporation for its share in rent and office maintenance costs. The President and Director of



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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the corporation is also the President of the Company. The corporation owed the Company \$9,216 at September 30, 2010

### **CONTRACTUAL OBLIGATIONS**

In January 2010, the Company established a partnership and strategic alliance with DMCI-CERI, a subsidiary of DACON Corporation. In February 2010, the Partners signed a JVA to conduct exploration, development and production of mineral deposits within EXPA 61 in the GCTA. EXPA 61 is within a 15 km radius trucking distance of the current Canatuan sulphide plant. Under the JVA, TVIRD will hold a 70% interest and will act as the operator, while DMCI will hold the remaining 30% interest. 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.

The Company rents its office premises on a five-year term lease. Total rent payments amount to \$123,840 for the period 2010 to 2015, net of short-term sub-leasing arrangements.

### **CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures.**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer and interim Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined by the Canadian Securities Administrators). Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that they are aware of all material information relating to the Company and its subsidiaries.

#### **Internal Controls over Financial Reporting**

The Company's internal controls over financial reporting ("ICOFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Management has evaluated the design of ICOFR as of September 30, 2010, and plans to update the evaluation of operating effectiveness of internal controls over financial reporting throughout the year. Management concluded that there has been no change in the Company's internal control over financial reporting during the nine-month period ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that while the Company's Chief Executive Officer and interim Chief Financial Officer believe that ICOFR provide a reasonable level of assurance, they do not expect that the ICOFR would prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable assurance that the objectives of the control system are met.

### **ADDITIONAL INFORMATION**

The Company's outstanding common shares as at September 30, 2010 and November 15, 2010 were 487,863,663. The basic weighted average number of common shares issued and outstanding for the three and nine months ended September 30, 2010, were 487,556,570 and 484,167,368 (three and nine months ended September 30, 2009 - 467,108,145 and 455,796,850). The diluted weighted average number of common shares issued and outstanding for the three and nine months ended September 30, 2010, was 565,130,667 and 567,302,973 (three and nine months ended September 30, 2009 - 523,640,679 and 498,628,369).

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## IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain information set out in this MD&A constitutes forward-looking information. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe", "schedule" and similar expressions. Forward-looking statements are based upon the opinions and expectations of management of the Company as at the effective date of such statements and, in certain cases, information received from or disseminated by third parties. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received from or disseminated by third parties is reliable, it can give no assurance that those expectations will prove to have been correct. Forward-looking statements are subject to certain risks and uncertainties (known and unknown) that could cause actual outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, the volatility of prices for precious metals and base metals; commodity supply and demand; fluctuations in currency and interest rates; inherent risks associated with the exploration and development of mining properties; ultimate recoverability of mineral reserves; accuracy of production and cost estimates; timing, results and costs of exploration and development activities; availability of financial resources or third-party financing; new laws (domestic or foreign); changes in administrative practices; changes in exploration plans or budgets; fluctuations in the global financial condition; environmental and social hazards; the political, social and economic environment; and availability of equipment and personnel. **Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this MD&A and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes.**

Forward-looking statements regarding the commissioning of the Zinc Circuit at Canatuan are based upon current mining and processing activities, prior experiences of management with mining and processing, the estimated copper and zinc mineralization of the sulphide zone, the current development and operating plan, and the Company's current budget and overall strategy for Canatuan, which plans, budget and strategy are all subject to change. Forward-looking statements regarding the nature and timing of exploration in the GCTA (including Siennalynn and EXPA 61), Bonbon, Tamarok and the Company's other tenements in the Philippines are based upon current and previous exploration activities, management's experiences with other exploration programs undertaken in the Philippines and elsewhere, and the Company's overall plans, budget and strategy, which are all subject to change. In certain cases, the timing of exploration activities in the Philippines is dependent upon the receipt of FPIC from indigenous communities and regulatory approvals from the government of the Philippines. Forward-looking statements regarding expectations that the Company will be able to find additional ore in the GCTA (including Siennalynn and EXPA 61) and that this ore can be economically transported to the existing Canatuan mill are based upon current and previous exploration activities, management's experience with other exploration programs undertaken in the Philippines and elsewhere, management's experience with current and previous mining and processing activities at Canatuan, and the Company's overall plans, budget and strategy, which are all subject to change. Forward-looking statements regarding the timing for an updated NI 43-101 report and a development decision for Balabag are based upon current and previous exploration activities, management's experiences with feasibility and construction programs undertaken in the Philippines and elsewhere, advice received from third-party advisors, and the Company's current budget and overall strategy for Balabag, which plans, budget and strategy are all subject to change. Forward-looking statements regarding the timing of exploration activities at Siennalynn (including Stage 1 & 2 drilling, assays and evaluations) are based upon current and previous exploration activities, management's experiences with other exploration work programs undertaken in the Philippines and elsewhere, and the Company's current budget and overall strategy for Siennalynn, which plans, budget and strategy are all subject to change. Forward-looking statements regarding the timing for completion of airborne geophysical surveys over the Company's tenements are based upon discussions held to date with the international service provider, the timing of mobilization of equipment, and the Company's overall plans, budget and strategy, which are all subject to change. Forward-looking statements regarding the timing of the arrival of the EDCO drilling rigs in the Philippines and the allocation the rigs to exploration programs at Siennalynn, Balabag, and Tamarok are based upon discussions held to date with third parties, results of current and previous exploration activities, management's experiences with other exploration work programs undertaken in the Philippines and elsewhere, and the Company's overall plans, budget and strategy, which are all subject to change. Forward-looking statements regarding the Company's expected capital expenditures for 2010 and its ability to continue to optimize throughput to offset declining feed grades is based on current mining and processing activities at Canatuan, current throughput of the sulphide plant and planned expansions in throughput, anticipated recoveries, efficiency and effectiveness of the sulphide plant, management's prior experiences with mining and processing at Canatuan, the estimated copper and zinc mineralization of the sulphide zone at Canatuan, current and previous exploration, and the Company's overall plans, budget and strategy, which are all subject to change.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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*The forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. Subject to applicable securities laws, the Company does not undertake any obligation to publicly revise the forward-looking statements included in this MD&A to reflect subsequent events or circumstances, except as required by law.*

**Corporate Head Office:**

2000, 736–6<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 3T7  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tvi-info@tvipacific.com](mailto:tvi-info@tvipacific.com)  
Web: [www.tvipacific.com](http://www.tvipacific.com)

**Corporate Directory:**

Clifford M. James, President and Chief Executive Officer  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tvi-info@tvipacific.com](mailto:tvi-info@tvipacific.com)

Rhonda M. Bennetto, Executive Director, Investor Communications  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tvi-info@tvipacific.com](mailto:tvi-info@tvipacific.com)

**Registrar and Transfer Agent:**

Computershare Trust Company of Canada  
600, 530–8<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 3S8  
Telephone: (403) 267-6800

**Share Listing:**

Toronto Stock Exchange Symbol: TVI

**Auditors:**

PricewaterhouseCoopers LLP  
3100, 111–5<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 5L3  
Telephone: (403) 509-7500



## **Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended  
September 30, 2010 and 2009  
(Unaudited)**

**TVI Pacific Inc.**  
**Unaudited Interim Consolidated Balance Sheets**  
**September 30, 2010**  
**(in Canadian dollars)**



	September 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash	\$ 4,411,526	\$ 13,978,620
Accounts receivable (note 3)	5,875,119	5,087,663
Advances to suppliers	188,205	639,448
Inventories (note 4)	6,590,342	2,578,954
Prepaid expenses	889,493	425,961
	<u>17,954,685</u>	<u>22,710,646</u>
Restricted cash (note 5)	595,161	118,582
Investment (note 6)	235,238	-
Property and equipment (note 7)	26,434,219	27,378,127
	<u>\$ 45,219,303</u>	<u>\$ 50,207,355</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,621,673	\$ 5,494,263
Letter of credit facilities (note 8a)	846,223	323,751
Short-term loan facilities (note 8b)	7,805,398	-
Current portion of term facility (note 8c)	-	7,477,095
Current portion of asset retirement obligation (note 9)	403,447	506,979
Due to related parties (note 10)	97,978	1,209,111
	<u>13,774,719</u>	<u>15,011,199</u>
Term facility (note 8c)	-	16,846,305
Pension obligation (note 11)	1,157,543	725,573
Asset retirement obligation (note 9)	2,082,339	2,087,686
	<u>17,014,601</u>	<u>34,670,763</u>
Non-controlling interests (Note 13)	22,042	-
Equity attributable to the shareholders of the Company:		
Share capital (note 12b)	23,008,280	22,004,269
Warrants (note 12d)	2,403,496	2,403,496
Contributed surplus (note 12e)	5,083,014	4,708,982
Deficit	(2,501,904)	(12,661,637)
Accumulated other comprehensive income (loss)	189,774	(918,518)
	<u>28,182,660</u>	<u>15,536,592</u>
	<u>\$ 45,219,303</u>	<u>\$ 50,207,355</u>

Commitments (note 17)

Subsequent events (notes 3, 8, 10, 15 and 18)

The accompanying notes are an integral part of these interim 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.**  
**Unaudited Interim Consolidated Statements of Operations and**  
**Comprehensive Income**  
**September 30, 2010 and 2009**  
**(in Canadian dollars)**



	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>				
Net concentrate sales (note 15)	\$ 15,624,083	\$ 25,502,106	\$ 58,109,322	\$ 43,800,970
Other revenues	36,424	172,543	166,291	246,625
Interest revenue	5,249	32,218	27,371	99,965
	<b>15,665,756</b>	<b>25,706,867</b>	<b>58,302,984</b>	<b>44,147,560</b>
<b>Expenses:</b>				
Mining, milling, and other expenses	6,210,882	8,301,415	19,790,653	17,602,130
Exploration costs	1,089,767	112,348	3,552,285	293,077
Administrative and general costs	2,104,366	3,145,084	5,896,221	6,999,199
Amortization and accretion	3,095,095	2,293,307	8,567,176	4,870,026
Interest expense	485,684	2,090,253	9,477,728	5,563,517
Foreign exchange loss (gain)	(253,680)	(172,071)	813,560	407,389
Loss (gain) on sale of assets	-	19,477	23,586	(167,038)
	<b>12,732,114</b>	<b>15,789,813</b>	<b>48,121,209</b>	<b>35,568,300</b>
Net income before non-controlling interests	2,933,642	9,917,054	10,181,775	8,579,260
Net income attributable to non-controlling interests (Note 13)	(22,042)	-	(22,042)	-
Net income attributable to the shareholders of the Company	2,911,600	9,917,054	10,159,733	8,579,260
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustment	1,280,981	(486,548)	1,108,292	(353,964)
	<b>1,280,981</b>	<b>(486,548)</b>	<b>1,108,292</b>	<b>(353,964)</b>
Comprehensive income attributable to the shareholders of the Company	\$ 4,192,581	\$ 9,430,506	\$ 11,268,025	\$ 8,225,296
<b>Net income per share:</b>				
Basic	\$ 0.006	\$ 0.021	\$ 0.021	\$ 0.019
Diluted	0.005	0.019	0.018	0.017
<b>Weighted average number of common shares:</b>				
Basic (note 14)	487,556,570	467,108,145	484,167,368	455,796,850
Diluted (note 14)	565,130,667	523,640,679	567,302,973	498,628,369

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

**TVI Pacific Inc.**  
**Unaudited Interim Consolidated Statements of Deficit and**  
**Accumulated Other Comprehensive Income (Loss)**  
**September 30, 2010 and 2009**  
**(in Canadian dollars)**



	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Deficit, beginning of period	\$ (5,413,504)	\$ (32,321,776)	\$ (12,661,637)	\$ (30,983,982)
Net income attributable to the shareholders of the Company	2,911,600	9,917,054	10,159,733	8,579,260
Deficit, end of period	\$ (2,501,904)	\$ (22,404,722)	\$ (2,501,904)	\$ (22,404,722)
Accumulated other comprehensive income (loss), beginning of period	\$ (1,091,207)	\$ 35,746	\$ (918,518)	\$ (96,838)
Other comprehensive income (loss)	1,280,981	(486,548)	1,108,292	(353,964)
Accumulated other comprehensive income (loss), end of period	\$ 189,774	\$ (450,802)	\$ 189,774	\$ (450,802)

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

**TVI Pacific Inc.**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**September 30, 2010 and 2009**  
**(in Canadian dollars)**



	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Cash provided by (used in):				
Operating:				
Net income attributable to shareholders of the Company	\$ 2,911,600	\$ 9,917,054	\$ 10,159,733	\$ 8,579,260
Items not involving cash:				
Amortization and accretion	3,095,095	2,293,307	8,567,176	4,870,026
Amortization of deferred financing costs	-	413,381	-	693,279
Loss on debt extinguishment	-	-	2,803,650	-
Unrealized foreign exchange gain	(892,125)	(56,474)	(169,951)	(935,368)
Loss (gain) on sale of property and equipment	-	19,477	23,586	(167,038)
Pension obligation	371,252	32,782	431,970	90,813
Stock based compensation	86,603	575,588	395,224	876,122
Non-controlling interests	22,042	-	22,042	-
	5,594,467	13,195,115	22,233,430	14,007,094
Change in working capital	(5,216,787)	(1,798,209)	(5,320,866)	(3,138,802)
	377,680	11,396,906	16,912,564	10,868,292
Financing:				
Letter of credit facilities utilized	87,247	-	490,386	-
Short-term loan facilities utilized (repaid)	(782,025)	-	7,603,660	-
Term facility repaid	(145,945)	(4,104,460)	(25,518,061)	(832,184)
Due from related parties	10,111	352,209	23,683	292,518
Shares issued in private placement	-	12,500	-	12,500
Share issue cost	-	-	(3,619)	(10,580)
	(830,612)	(3,739,751)	(17,403,951)	(537,746)
Change in working capital	(39,620)	(2,441,899)	(2,048,116)	1,101,204
	(870,232)	(6,181,650)	(19,452,067)	563,458
Investing:				
Expenditure on investment	-	-	(225,476)	-
Expenditures on property and equipment	(1,216,092)	(1,577,956)	(6,202,786)	(2,950,595)
Proceeds on disposal of property and equipment	-	-	1,332	188,428
Change in restricted cash	(476,934)	321,675	(476,579)	321,230
Realized foreign exchange in net investment	(134)	(171,764)	1,218	(18,408)
	(1,693,160)	(1,428,045)	(6,902,291)	(2,459,345)
Change in working capital	120,856	228,078	(413,722)	(2,296,903)
	(1,572,304)	(1,199,967)	(7,316,013)	(4,756,248)
Effect of foreign exchange rates on cash	282,321	(385,063)	288,422	(694,311)
Increase (decrease) in cash	(1,782,535)	3,630,226	(9,567,094)	5,981,191
Cash, beginning of period	6,194,061	5,105,067	13,978,620	2,754,102
Cash, end of period	\$ 4,411,526	\$ 8,735,293	\$ 4,411,526	\$ 8,735,293
Supplemental cash flow information:				
Interest paid	\$ 143,140	\$ 2,607,786	\$ 8,912,803	\$ 2,672,634
Interest received	5,238	7,121	27,340	14,296

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

## 1. Nature of operations:

TVI Pacific Inc. ("TVI" or the "Company") is a mining company focused in the acquisition, exploration, and development of polymetallic mineral deposits in the Philippines. The Company's interests in its Philippine assets are held through its affiliate, TVI Resource Development Phils., Inc. ("TVIRD"). In March 2009, the Company declared commercial production of its current Canatuan sulphide project, which produces copper.

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

## 2. Significant accounting policies:

These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2009, except as disclosed below. The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and do not contain all the explanatory notes, descriptions of accounting policies or other disclosures required by Canadian GAAP for annual financial statements. Accordingly, these consolidated financial statements should be read in conjunction with those audited consolidated financial statements for the year ended December 31, 2009.

### (a) Principles of consolidation

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 Mineral Processing Inc., including its interest in TVIRD and nineteen inactive Philippine subsidiaries.

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. These companies have been consolidated as they meet the criteria of variable interest entities and TVI is the primary beneficiary in accordance with Canadian GAAP (Accounting Guideline 15 - Consolidation of Variable Interest Entities). Non-controlling interests in less than wholly-owned subsidiaries of the Company comprise the interest held by the Philippine residents or companies.

Share of non-controlling interests on the income or losses are separately presented in the consolidated statements of operations. However, when the losses applicable to the non-controlling interests in subsidiaries exceed the non-controlling interests' carrying value in subsidiaries, the excess and any further losses will be fully absorbed by the Company. The non-controlling interests arising on consolidation will not be recognized, except for the guaranteed share in profit based on contractual arrangement on the attribution of earnings, until such time as previously absorbed losses of these companies are recovered.

CICA Handbook Sections 1582 – "Business Combinations", 1601, "Consolidations" and Section 1602, "Non-Controlling Interests" replace Sections 1581 – "Business Combinations", and 1600, "Consolidated Financial Statements". The standards apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the new standards and the option to adopt them early will be assessed as part of our International Financial Reporting Standards conversion.

### (b) International financial reporting standards

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with the International Financial Reporting Standards ("IFRS") on January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

### (c) Comparative figures

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

**3. Accounts receivable:**

	September 30, 2010	December 31, 2009
Receivable from concentrate sales	\$ 4,834,561	\$ 4,146,280
Receivable from sale of assets	617,880	627,960
Other receivables	422,678	313,423
	<b>\$ 5,875,119</b>	<b>\$ 5,087,663</b>

The Company is currently in the process of repossessing the assets sold to a third party. Once the Company fully takes over the assets, the receivable will be deemed fully settled. The concerned third party has been cooperating with the Company for a smooth transition / turn-over of the related assets. The Company expects that the assets will leave the warehouse of the third party in November 2010 and arrive during Q1 2011.

**4. Inventories:**

	September 30, 2010	December 31, 2009
Consumable drilling parts and supplies	\$ 376,800	\$ 333,735
Mineral processing supplies	3,817,525	1,490,834
Metal inventory:		
Finished goods	2,340,414	733,026
Stockpiled ore	55,603	21,359
	<b>\$ 6,590,342</b>	<b>\$ 2,578,954</b>

During the nine months ended September 30, 2010, the Company recognized \$7,198,018 (September 30, 2009 - \$7,318,963) of inventory as expense under mining, milling, and other expenses. These expenses include materials and supplies and direct finished good costs. The Company did not recognize a provision for inventory obsolescence during the periods ended September 30, 2010 and 2009.

**5. Restricted cash:**

The Company holds \$595,161 and \$118,582 in restricted cash related to deposits in environmental trust funds as of September 30, 2010 and December 31, 2009, respectively.

**6. Investment:**

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 September 30, 2010 amounts to \$235,238, which will be used to fund the Company's pension obligation.

**7. Property and equipment:**

	September 30, 2010			December 31, 2009	
	Cost	Accumulated amortization	Net book value	Net book value	
Canatuan sulphide plant:					
Property and equipment	\$ 26,963,220	\$ (11,792,524)	\$ 15,170,696	\$ 17,310,772	
Construction in progress:					
Sulphide dam	12,422,344	(6,390,137)	6,032,207	8,345,293	
Zinc circuit	3,755,725	-	3,755,725	501,213	
Others	607,706	-	607,706	746,354	
Drilling and other operations	3,055,712	(2,187,827)	867,885	474,495	
	<b>\$ 46,804,707</b>	<b>\$ (20,370,488)</b>	<b>\$ 26,434,219</b>	<b>\$ 27,378,127</b>	

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.

## **7. Property and equipment (continued):**

During the fourth quarter of 2009, the Company started the construction of the zinc circuit which continues in its commissioning stage.

During the period, the Company did not capitalize any interest (December 31, 2009 - \$400,194) related to financing. For the periods ended September 30, 2010 and 2009, the Company did not identify any triggering events which would indicate impairment over the valuation of its property and equipment.

## **8. Loan instruments:**

(a) The Company has letter of credit facilities with a major Philippine bank which accrue interest of 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 September 30, 2010 was \$846,223 (December 31, 2009 - \$323,751).

(b) On April 20, 2010, the Company obtained a US\$3.3 million revolving loan from a major Philippine bank, payable in 180 days, bearing an interest at 4.3% per annum. This facility was subsequently 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 3.3% per annum subject to quarterly re-pricing.

On April 29, 2010, the Company obtained a US\$3.0 million loan payable in four equal quarterly payments starting 90 days from drawdown date bearing interest at 4.33% per annum. The first scheduled quarterly payment in the amount of US\$750,000 was made on July 28, 2010. Another scheduled quarterly payment in the same amount of US\$750,000 was made on October 27, 2010.

In June 2010, the Company obtained an additional loan of US\$2 million with the same major Philippine bank, payable in 360 days, bearing an interest of 4.54% per annum.

The proceeds of these loans were all used to fund the voluntary principal prepayment on the Term Facility (note 8c), which had a higher effective interest rate. These loans are secured by the metal offtake agreement. At September 30, 2010, the total principal and interest outstanding was US\$7,558,981 (\$7,805,398).

(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 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, for the same period, was \$8.6 million, \$7.4 million of which represents prepayment premiums.

## **9. Asset retirement obligation:**

At September 30, 2010, the estimated total undiscounted inflation adjusted amount required to settle the asset retirement obligations was \$4.7 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 12%.

## 9. Asset retirement obligation (continued):

Changes to the asset retirement obligations were as follows:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Canatuan property:		
Beginning balance	\$ 2,594,665	\$ 2,803,219
Accretion expense – capitalized	-	26,274
Accretion expense	257,237	289,171
Liability paid	(478,302)	(173,480)
Foreign currency translation	112,186	(350,519)
Ending balance	\$ 2,485,786	\$ 2,594,665
Current portion	\$ 403,447	\$ 506,979
Non-current portion	2,082,339	2,087,686
	\$ 2,485,786	\$ 2,594,665

## 10. Related party transactions:

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

- During the three and nine months ended September 30, 2010, the Company paid or accrued management fees of \$107,316 and \$360,134 (for the three and nine months ended September 30, 2009 – \$378,715 and \$697,424). Management fees are paid to a corporation owned by the President of the Company for the services of the President and support staff. At September 30, 2010, the amount payable to the corporation was \$52,939 (December 31, 2009 - \$63,534).
- During the three and nine months ended September 30, 2010, the Company charged \$28,156 and \$96,192 (for the three and nine months ended September 30, 2009 – \$38,999 and \$124,734) 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 \$9,216 at September 30, 2010 (December 31, 2009 - \$20,709).
- In April 2010, the Company completely repaid the demand promissory notes to corporations owned by the President of the Company. 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 12b). 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 three and nine months ended September 30, 2010, the Company incurred director fees of \$28,500 and \$138,250 (for the three and nine months ended September 30, 2009 – \$53,041 and \$131,166). During the period, the Company paid \$217,826 for directors' fees. At September 30, 2010, the fees payable to directors was \$28,500 (December 31, 2009 - \$166,022), of which \$19,813 were paid in October 2010.
- During the three and nine months ended September 30, 2010, the Company paid \$77,453 and \$175,326 (for the three and nine months ended September 30, 2009 – \$37,069 and \$190,898) to corporations controlled by a director and president of TVIRD for administrative expenses. The Company owed the corporations \$27,053 at September 30, 2010 (December 31, 2009 - \$24,430).

## 11. Pension obligation

During the three and nine months ended September 30, 2010, the Company recognized \$371,252 and \$431,970 (for the three and nine months ended September 30, 2009 - \$32,782 and \$90,813) pension costs recorded under administrative and general costs in the Consolidated Statement of Operations.

**12. 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**

Common shares	Nine months ended September 30, 2010		Year ended December 31, 2009	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	478,946,181	\$ 22,004,269	406,240,640	\$ 21,017,205
Shares issued:				
Private placement	-	-	290,698	12,500
In exchange for debt obligation	7,980,889	957,707	71,964,253	1,463,206
Share issue cost	-	(3,619)	-	(505,345)
On exercise of options	936,593	49,923	450,590	16,703
Balance, end of period	487,863,663	\$ 23,008,280	478,946,181	\$ 22,004,269

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 10). 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 10).

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 Balabag property. The shares were issued at a price of \$0.016.

**(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.

	Nine months ended September 30, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	43,579,074	\$ 0.047	20,101,670	\$ 0.145
Granted	500,000	0.120	43,780,831	0.046
Exercised	(936,593)	0.031	(450,590)	0.020
Forfeited	(2,012,723)	0.057	(446,442)	0.067
Expired	-	-	(694,724)	0.192
Cancelled	-	-	(18,711,671)	0.145
Options outstanding, end of period	41,129,758	\$ 0.048	43,579,074	\$ 0.047
Options exercisable, end of period	24,365,181	\$ 0.046	16,757,740	\$ 0.045

12. Share capital (continued):

Price range	Number outstanding	Weighted average remaining contractual life (years)	Exercisable
\$ 0.020 – 0.029	18,379,759	3.32	11,573,528
0.030 – 0.044	750,000	3.62	250,000
0.045 – 0.067	-	-	-
0.068 – 0.100	21,437,500	3.96	12,479,154
0.101 – 0.151	500,000	4.54	-
0.152 – 0.190	62,499	1.63	62,499
\$ 0.020 – 0.190	41,129,758	3.67	24,365,181

(d) Warrants

	Number of warrants	Weighted average exercise price	Amount
Warrants outstanding, January 1, 2009	-	\$ -	\$ -
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
Warrants outstanding, September 30, 2010	80,089,417	\$ 0.019	\$ 2,403,496

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 transaction costs in 2009.

In conjunction with the common shares issued on September 30, 2009 (note 10), 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.

	Nine months ended September 30, 2010	Year ended December 31, 2009
Risk free interest rate – average	-	1.6%
Expected life (in years)	-	5
Expected volatility	-	127.5%
Average fair value per warrant	-	0.030

(e) Stock-based compensation and contributed surplus

The weighted average fair value of stock options granted for the nine months ended September 30, 2010 was \$0.106. There were no stock options granted during the three months ended September 30, 2010 (three and nine months ended September 30, 2009 – \$0.062 and \$0.041). The following table sets out the assumptions used in applying the Black-Scholes model:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Risk free interest rate – average	2.8%	2.1%
Expected life (in years)	5	5
Expected volatility	136.5%	133.0%
Expected dividend	-	-

During the three and nine months ended September 30, 2010, a net of \$86,603 and \$395,224 (for the three and nine months ended September 30, 2009 – \$575,588 and \$876,122) of stock-based compensation was charged to the Consolidated Statement of Operations.

**12. Share capital (continued):**

*Contributed surplus*

	Nine months ended September 30, 2010		Year ended December 31, 2009	
Balance beginning of period	\$	4,708,982	\$	3,666,827
Stock-based compensation		440,898		1,058,572
Options forfeited		(45,674)		(8,725)
Options exercised		(21,192)		(7,692)
Balance end of period	\$	5,083,014	\$	4,708,982

**13. 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 \$22,042, was recognized during the nine months ended September 30, 2010. 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.

**14. Per share data:**

The basic weighted average number of common shares issued and outstanding for the three and nine months ended September 30, 2010 was 487,556,570 and 484,167,368 (three and nine months ended September 30, 2009 - 467,108,145 and 455,796,850). The diluted weighted average number of common shares issued and outstanding for the three and nine months ended September 30, 2010 was 565,130,667 and 567,302,973 (three and nine months ended September 30, 2009 - 523,640,679 and 498,628,369).

**15. Revenues from concentrate sales:**

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenues from:				
Copper	\$ 13,597,216	\$ 22,989,338	\$ 49,151,121	\$ 38,022,796
Gold	1,316,504	2,665,309	5,315,906	4,842,158
Silver	1,565,725	2,271,166	6,565,885	5,737,063
Gross revenues	16,479,445	27,925,813	61,032,912	48,602,017
Treatment, refining, and other charges	(855,362)	(2,423,707)	(2,923,590)	(4,801,047)
Net revenues	\$ 15,624,083	\$ 25,502,106	\$ 58,109,322	\$ 43,800,970

Sales are recognized when risk and title pass to the customer and the price is reasonably determinable. Metal concentrates are sold under pricing arrangements 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.

**15. Revenues from concentrate sales (continued):**

Subsequent to the period, the Company completed the eighteenth shipment for gross revenues of US\$8.9 million. The Company received US\$5.6 million representing advanced payment for this shipment.

**16. Segmented information:**

The Company has three operating units: mining activities in the Philippines, exploration in the Philippines, and corporate offices in Canada and in the Philippines.

Three months ended September 30, 2010	Mining	Exploration	Corporate	Total
Net concentrate sales	\$ 15,624,083	\$ -	\$ -	\$ 15,624,083
Other revenues	36,424	-	-	36,424
Interest revenue	5,238	-	11	5,249
	15,665,745	-	11	15,665,756
Operating expenses	(6,955,048)	-	(1,360,200)	(8,315,248)
Exploration costs	-	(1,089,767)	-	(1,089,767)
	8,710,697	(1,089,767)	(1,360,189)	6,260,741
Amortization and accretion	(3,093,718)	-	(1,377)	(3,095,095)
	5,616,979	(1,089,767)	(1,361,566)	3,165,646
Interest expense	-	-	(485,684)	(485,684)
Foreign exchange gain	-	-	253,680	253,680
Net income (loss)	\$ 5,616,979	\$ (1,089,767)	\$ (1,593,570)	\$ 2,933,642
Assets	\$ 44,596,042	\$ -	\$ 623,261	\$ 45,219,303
Capital expenditures	1,134,281	-	81,811	1,216,092

Three months ended September 30, 2009	Mining	Exploration	Corporate	Total
Net concentrate sales	\$ 25,502,106	\$ -	\$ -	\$ 25,502,106
Other revenues	172,543	-	-	172,543
Interest revenue	30,409	1,799	10	32,218
	25,705,058	1,799	10	25,706,867
Operating expenses	(8,835,408)	-	(2,611,091)	(11,446,499)
Exploration costs	-	(112,348)	-	(112,348)
	16,869,650	(110,549)	(2,611,081)	14,148,020
Amortization and accretion	(2,285,472)	-	(7,835)	(2,293,307)
	14,584,178	(110,549)	(2,618,916)	11,854,713
Loss on sale of assets	(6,048)	-	(13,429)	(19,477)
Interest expense	-	-	(2,090,253)	(2,090,253)
Foreign exchange gain	-	-	172,071	172,071
Net income (loss)	\$ 14,578,130	\$ (110,549)	\$ (4,550,527)	\$ 9,917,054
Assets	\$ 44,244,337	\$ -	\$ 892,174	\$ 45,136,511
Capital expenditures	1,532,618	-	45,338	1,577,956



16. Segmented information (continued):

Nine months ended September 30, 2010	Mining	Exploration	Corporate	Total
Net concentrate sales	\$ 58,109,322	\$ -	\$ -	\$ 58,109,322
Other revenues	166,291	-	-	166,291
Interest revenue	27,340	-	31	27,371
	58,302,953	-	31	58,302,984
Operating expenses	(21,280,840)	-	(4,406,034)	(25,686,874)
Exploration costs		(3,552,285)	-	(3,552,285)
	37,022,113	(3,552,285)	(4,406,003)	29,063,825
Amortization and accretion	(8,552,619)	-	(14,557)	(8,567,176)
	28,469,494	(3,552,285)	(4,420,560)	20,496,649
Loss on sale of assets	-	-	(23,586)	(23,586)
Interest expense	-	-	(9,477,728)	(9,477,728)
Foreign exchange loss	-	-	(813,560)	(813,560)
Net income (loss)	\$ 28,469,494	\$ (3,552,285)	\$ (14,735,434)	\$ 10,181,775
Assets	\$ 44,596,042	\$ -	\$ 623,261	\$ 45,219,303
Capital expenditures	6,120,974	-	81,812	6,202,786

Nine months ended September 30, 2009	Mining	Exploration	Corporate	Total
Net concentrate sales	\$ 43,800,970	\$ -	\$ -	\$ 43,800,970
Other revenues	246,625	-	-	246,625
Interest revenue	98,096	1,831	38	99,965
	44,145,691	1,831	38	44,147,560
Operating expenses	(18,779,544)	-	(5,821,785)	(24,601,329)
Exploration costs	-	(293,077)	-	(293,077)
	25,366,147	(291,246)	(5,821,747)	19,253,154
Amortization and accretion	(4,845,496)	-	(24,530)	(4,870,026)
	20,520,651	(291,246)	(5,846,277)	14,383,128
Gain (loss) on sale of assets	180,467	-	(13,429)	167,038
Interest expense	-	-	(5,563,517)	(5,563,517)
Foreign exchange loss	-	-	(407,389)	(407,389)
Net income (loss)	\$ 20,701,118	\$ (291,246)	\$ (11,830,612)	\$ 8,579,260
Assets	\$ 44,244,337	\$ -	\$ 892,174	\$ 45,136,511
Capital expenditures	2,885,606	-	64,989	2,950,595

**17. Commitments:**

**(a) Joint venture agreement - Philippines**

In February 2010, TVIRD signed a Joint Venture Agreement (“JVA”) with DMCI-CERI, an unrelated party and a subsidiary of DACON Corporation, 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 will hold a 70% interest and will act as the operator, while DMCI-CERI will hold 30% interest. 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.

**(b) Corporate - Canada**

The Company rents its office premises on a five-year term lease. Total rent payments amount to \$123,840 for the period 2010 to 2015, net of short-term sub-leasing arrangements.

**18. Financial instruments:**

**(a) Analysis of financial assets and financial liabilities**

The table below set out the Company’s classification for each of its financial assets and liabilities at September 30, 2010.

	Financial assets held for trading	Available for sale	Loans and receivables	Other financial liabilities	Total carrying value
Cash	\$ 4,411,526	\$ -	\$ -	\$ -	\$ 4,411,526
Restricted cash	595,161	-	-	-	595,161
Accounts receivable	-	-	5,875,119	-	5,875,119
Investment	-	235,238	-	-	235,238
Advances to suppliers	-	-	188,205	-	188,205
Accounts payable and accrued liabilities	-	-	-	(4,621,673)	(4,621,673)
Letter of credit facilities	-	-	-	(846,223)	(846,223)
Short-term loan facilities	-	-	-	(7,805,398)	(7,805,398)
Due to related parties	-	-	-	(97,978)	(97,978)
	\$ 5,006,687	\$ 235,238	\$ 6,063,324	\$ (13,371,272)	\$ (2,066,023)

**(b) Fair values of financial assets and financial liabilities**

The carrying value of the Company’s financial assets and liabilities consisting of cash, 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 September 30, 2010 due to their short term nature. The Company’s investment also approximates its fair value at September 30, 2010 as it is recorded at market value.

**(c) 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.

**(i) 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 loan in the US dollar currency.

**18. Financial instruments (continued):**

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.

For the nine months period ended September 30, 2010, 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, would be \$31,275 mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash, trade receivables and loans.

The Company publishes its consolidated financial statements in Canadian dollar and as a result, it is subject to foreign currency exchange translation risk in respect of the results and underlying net assets of its foreign operations. At September 30, 2010, the pro forma impact on other comprehensive income from a 5% movement in the Canadian dollar exchange with the Philippine peso would be \$615,739.

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

	Average rate		Spot rate	
	Nine months ended September 30, 2010	Year ended December 31, 2009	September 30, 2010	December 31, 2009
US Dollar	1.0356	1.1420	1.0298	1.0466
Philippine Peso	0.0227	0.0240	0.0235	0.0225

(ii) *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.

At September 30, 2010, if the market copper price per pound moved by US\$0.3 per pound with all variables held constant, the pro forma impact on net income would be \$6.1 million.

(iii) *Interest rate risk*

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 loans have fixed interest terms, regardless of changes in market conditions.

(iv) *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 September 30, 2010, the Company has a \$4.2 million working capital surplus. The Company intends to manage its obligations on a gradual settlement basis.

**18. Financial instruments (continued):**

The financial obligations as at September 30, 2010 have contractual maturities of 12 months or less. Balances equal their carrying amounts as the impact of discounting is not significant. Included are demand loans, as the timing of repayment is uncertain.

	<b>Due within 12 months</b>
Accounts payable and accrued liabilities	\$ 4,621,673
Letter of credit facilities	846,223
Short-term loan facilities	7,805,398
Due to related parties	97,978
	<b>\$ 13,371,272</b>

For the nine months ended and as at September 30, 2010, the Company has letter of credit facilities and loans payable at fixed interest rates.

	<b>Principal outstanding</b>	<b>Effective annual interest rate</b>	<b>Interest expense</b>	<b>Maturity date</b>
Letter of credit facilities	846,223	8.25%	51,655	November 2010 to February 2011
Short-term loan facilities	7,796,124	4.3% to 4.54%	173,342	October 2010 to June 2011

*(v) 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 accounts receivable. The Company manages credit risk associated with cash by maintaining its cash, restricted cash in accounts from highly reputable banks, which were approved by the Board of Directors.

As at September 30, 2010, 82% of total receivables relate to concentrate sales, 11% represents receivable from sale of assets and only 7% pertain to other miscellaneous receivables. 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 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. Subsequent to the period, the Company received 100% of the receivable from concentrate sales.

The Company is currently in the process of repossessing the assets sold to a third party. The Company expects that the assets consisting of the drill rigs and inventories will leave the warehouse of the third party in November 2010 and arrive during Q1 2011.

The carrying amount of cash, restricted cash, investment, and accounts receivable at September 30, 2010 represents the Company's maximum credit exposure. Management believes that the credit risk with respect to these financial instruments is remote. The Company currently does not have a policy to mitigate credit risk.

***(d) 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.

## 19. Capital disclosures:

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, issuance of new debt, or 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, and due to related parties. Equity comprises all components of equity other than amounts in accumulated other comprehensive income. Assets are defined as cash, accounts receivable, advances to suppliers, inventories, restricted cash, investment, and property and equipment.

	September 30, 2010		December 31, 2009	
Debt	\$	13,371,272	\$	31,371,234
Equity		27,992,886		16,455,110
Assets		44,329,810		49,802,103
Debt-to-equity		0.48		1.91
Debt-to-assets		0.30		0.63

The Company also measures financial performance on the basis of free cash flow calculated as operating cash flow before working capital less cash spent on capital expenditures. It represents cash flow available after laying out all the expenditures necessary to maintain or expand its asset base. Free cash flow per share is computed by dividing free cash flow by the total number of shares outstanding.

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating cash flow	\$ 377,680	\$ 11,396,906	\$ 16,912,564	\$ 10,868,292
Change in working capital	5,216,787	1,798,209	5,320,866	3,138,802
Operating cash flow before change in working capital	5,594,467	13,195,115	22,233,430	14,007,094
Expenditures on property and equipment	(1,216,092)	(1,577,956)	(6,202,786)	(2,950,595)
Free cash flow	\$ 4,378,375	\$ 11,617,159	\$ 16,030,644	\$ 11,056,499
Common shares outstanding	487,863,663	478,946,181	487,863,663	478,946,181
Free cash flow per share	\$ 0.009	\$ 0.024	\$ 0.033	\$ 0.023

***Corporate Head Office:***

Suite 2000, 736–6<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 3T7  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tv-info@tvipacific.com](mailto:tv-info@tvipacific.com)  
Web: [www.tvipacific.com](http://www.tvipacific.com)

***Corporate Directory:***

Clifford M. James, President and Chief Executive Officer  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tv-info@tvipacific.com](mailto:tv-info@tvipacific.com)

Rhonda M. Bennetto, Executive Director, Investor Communications  
Telephone: (403) 265-4356  
Facsimile: (403) 264-7028  
Email: [tv-info@tvipacific.com](mailto:tv-info@tvipacific.com)

***Registrar and Transfer Agent:***

Computershare Trust Company of Canada  
600, 530–8<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 3S8  
Telephone: (403) 267-6800

***Share Listing:***

Toronto Stock Exchange Symbol: TVI

***Auditors:***

PricewaterhouseCoopers LLP  
3100, 111–5<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 5L3  
Telephone: (403) 509-7500