



TVI Pacific Inc.

Management's Discussion and Analysis

For the Years Ended December 31, 2008 and 2007



The discussion and analysis that follows is intended to provide a summary of TVI Pacific Inc. ("TVI" or the "Company") results over the past two years, as well as its financial position and future plans. It should be read in conjunction with the audited financial statements for the years ended December 31, 2008 and 2007. 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 or on SEDAR's website at www.sedar.com. Information in this MD&A is as of March 26, 2009.

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.

In particular, this MD&A includes forward-looking information respecting:

The Forward-looking information set out in this AIF includes information respecting:

- timing of commencement, completion, commissioning and production activities at the Sulphide Project;
- timing for shipment of copper to MRI;
- timing for meeting with the Rehabilitation Receiver in connection with Rapu Rapu mine issues;
- timing and the results of settlement of claims;
- planned cost reduction initiatives;
- planned sales of non-core assets including the contract drilling business assets in the Philippines;
- future exploration activities at Balabag, Tamarok, Tapisa and the Company's other properties in the Philippines; and
- expectations regarding the Corporation's ability to raise capital and to continually add to mineral reserves through acquisitions, exploration and development.

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, such things as 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, 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, and availability of equipment and availability of 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 information respecting the timing of commencement, completion, commissioning and production from the various components of the Sulphide Project is based upon progress made to date on the construction of the infrastructure required to support mining and processing activities from the Sulphide zone at Canatuan, advice received from third-party contractors with respect to the timing of various components of the construction project, prior experiences of management with construction and commissioning activities at Canatuan, the current development plan for Canatuan 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 shipment of copper to MRI is based on discussions



held to date with MRI and the current planned schedule. Forward-looking statements regarding the meeting with the Rehabilitation Receiver in connection with Rapu Rapu are based on discussions held to date. Forward-looking statements regarding the timing and the results of settlement of claims are based on the meetings and discussions held to date, analysis provided by legal counsel and the Company's experience in past claims. Forward-looking statements regarding cost reduction initiatives are based on management's cost targets and the reductions implemented to date. Forward-looking statements regarding the potential sales of non-core assets are based on the expectations of management and expressions of interest received to this point. Forward-looking information relating to the anticipated exploration activities at Balabag, Tamarok, Tapisa and the Company's other tenements in the Philippines are based upon the results of prior exploration activities and current mining and exploration activities. In certain cases, the anticipated timing of exploration activities in the Philippines is dependent upon the receipt of regulatory approvals from government authorities in the Philippines. Forward-looking statements regarding the Corporation's ability to raise capital and to continually add to mineral reserves through acquisitions, exploration and development is based on the Company's experience in the Philippines, previous financing endeavors, exploration and due-diligence completed to date, and the Company's experiences exploring, constructing and developing the Canatuan gossan and sulphide projects. 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.

OVERVIEW OF BUSINESS

TVI is a mining company focused on the acquisition, exploration and development of polymetallic mineral deposits in the Philippines. TVI's principal asset, the Canatuan Mine, is located in the Philippines and is owned by the Company's Philippine affiliate, TVI Resource Development Phils., Inc. ("TVIRD"), of which TVI has a 40% ownership. Under the principles of consolidation, the Company fully consolidates its interest in TVIRD as it is considered a variable interest entity. In addition, TVI holds a diverse portfolio of properties and land positions in the Philippines, including the Balabag exploration project, which the Company believes have significant near-term and long-term development potential. TVI also owns a contract drilling business in the Philippines.

TVI's strategy is to enhance shareholder value by developing mineral deposits on its own highly-prospective tenements and to pursue opportunities to acquire or participate in additional projects with existing production or near-term development potential. TVI plans to reinvest excess cash flows generated by the Canatuan Sulphide Project and to raise additional capital to finance the exploration and development of its diverse portfolio of mining properties and land positions, including the Balabag exploration project. The Company has secured the financing that is required to complete the construction of the sulphide plant.

During 2008 and into 2009, TVI completed the full-scale development of the Canatuan Sulphide Project from which the shipment of the copper concentrates is expected to start before mid-April 2009. The Company is currently working to ramp up production and complete the commissioning phase of the plant. Pending additional financing, TVI plans to continue near-mine exploration at Canatuan and to proceed with further exploration drilling and feasibility studies at Balabag, which the Company believes has the potential to be developed as a commercial gold mining operation. In addition, TVI plans to continue to explore its land positions outside the Balabag and Canatuan areas.

During the fourth quarter of 2007, the Company reviewed its business strategy and decided to monetize certain non-core assets to take advantage of the strong business climate for mining properties in Asia. In addition to focusing on its Canatuan operations and Philippine exploration properties, the Company plans to apply proceeds from the sale of non-core assets to strengthen its balance sheet. The first assets



marketed for sale were the share ownership in the Company's Chinese subsidiaries – Tiamut International Limited and Hunan Pacific Geological Exploration Inc. ("HPGEI"). On February 29, 2008, the Company executed and closed a sale agreement with an arms length party for the operations and assets in China. Total proceeds from the sale were US\$1,980,000 million, of which US\$300,000 has been held in escrow. In July 2008, the Company sold its assets located in Kyrgyzstan for proceeds of US\$1,200,000, of which half the proceeds were received immediately and the remaining half will be due by June 2009. The Company is currently exploring the option of selling its remaining drilling assets, including its contract drilling business.

Based on the Company's financial condition as at December 31, 2008, and variable commodity prices, there is significant doubt that the Company may not continue to be a going concern. There is no assurance that the Company will be successful in generating sufficient funds to finance the activities in the Canatuan sulphide plant, improving working capital deficiency, selling non-core assets, and other measures described above.

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 previously produced gold and silver doré from gossan ore that was mined using open-pit methods and processed through conventional carbon-in-leach and Merrill Crowe circuit. The Company depleted the gossan resource and ceased mining operations during the second quarter of 2008.

In early 2007, TVI commenced construction and development of the Canatuan Sulphide Project. The Sulphide Project includes construction of a new plant to process ore from a massive copper-zinc bearing sulphide zone below the mined gossan zone. The new plant began commissioning in mid-November 2008. The project includes building a separate tailings dam for its tailing deposits.

TVI also holds a number of tenements in close proximity to the Canatuan Mine. Through exploration, the Company hopes to find new commercial mineral deposits in the vicinity to further increase the mineral resource and extend the life of the Canatuan Mine by providing new feedstock for the Canatuan facilities already constructed. TVI is focusing these exploration efforts on previously-discovered mineralized zones within a fifteen kilometre radius of the main deposit, surrounding and along strike of the mine.

Gossan Operations

	2008	2007
Mill throughput (dry metric tonnes):		
Total ore processed	197,101	740,099
Average daily throughput	1,971	2,028
Feed grade (grams per tonne):		
Gold	1.04	1.60
Silver	17.65	56.29
Production volume (ounces):		
Gold	5,347	33,078
Silver	39,054	653,278
Recoveries:		
Gold	81.19%	87.12%
Silver	34.91%	48.77%
Average price (\$/ounce):		
Gold	923.41	737.41
Silver	17.14	14.58

The significant decrease in the total ore processed is due to the expected depletion of the gossan reserves which led to the cessation of the gossan mining and milling operations during early Q2 2008.



Processing of the gossan mineral reserves ceased on April 9, 2008, and the Company's last doré shipment was on April 24, 2008. On September 3, 2008 additional metal was recovered and sold as a result of the clean-up activities of the gossan operations.

The Company continues to focus on environmental rehabilitation of previously disturbed areas. Activities during the period ended December 31, 2008, included maintaining safe water levels in the gossan dam, planting trees, grass, and seedlings within and surrounding the mine area, continued preparation and implementation of environmental protection plans, and reclamation activities in the upper and lower tailing dam impoundments.

Sulphide Project

TVI has completed the development and construction of a copper-zinc flotation plant to process ore from a massive sulphide deposit located beneath the gossan open pit.

In April 2008, TVI received a National Instrument 43-101 ("NI 43-101") technical report on the Canatuan sulphide deposit prepared by P.J. Lafleur Geo-Conseil Inc, an independent consulting group. Significant information and assumptions from the feasibility study show a net cash flow of US\$107.4 million and a net present value of US\$79.1 million, discounted at 10% (using the prevailing price forecasts at the date of publication). In addition, the mine life is expected to last approximately six years at an initial mining rate of about 1,300 dry metric tonnes per day. For additional information, please refer to the National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101") technical report titled "43-101 Technical Report for the Sulphide Resources at the Canatuan Project of TVI Pacific Inc". 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. The report assumes copper prices of \$3.30/lb in 2008, \$3.15/lb in 2009, \$3.00/lb in 2010, \$2.85/lb in 2011, \$2.70/lb in 2012, and \$2.55/lb in 2013. Per the London Metal Exchange, the copper price at the end of December 2008 was \$1.32/lb and \$1.76/lb on March 26, 2009.

The main objective of P.J. Lafleur Geo-Conseil Inc was to produce an updated and optimized NI 43-101 technical report on the Canatuan sulphide mineral resources incorporating new information which included additional definition drilling results, current costs and metal prices. A new resource estimate was derived using Ordinary Kriging estimation techniques to acquire grade models for various mineral elements, including the four payable metals shown in the table below and certain other penalty elements found in the deposit (penalty elements are those commonly found in sulphide concentrates which add to smelter costs). This in turn has significantly enhanced overall mine planning for the sulphide project.

GRADE GROUP	Tonnage	CU PCT	ZN PCT	AU GT	AG GT
	T	Grade	Grade	Grade	Grade
> 2.00 % Cu	606,644	3.28	1.59	1.48	68.70
1.00 – 2.00	826,251	1.42	1.43	0.86	41.10
0.50 – 1.00	930,114	0.72	0.72	0.50	20.82
0.40 – 0.50	257,017	0.45	0.45	0.33	15.54
0.30 – 0.40	276,920	0.35	0.37	0.29	21.83
0.20 – 0.30	244,637	0.25	0.33	0.23	14.25
0.10 – 0.20	346,165	0.14	0.28	0.13	12.40
0.05 – 0.10	273,809	0.08	0.29	0.09	5.26
0.00 – 0.05	26,412	0.01	0.03	0.01	0.33
Total	3,787,969	1.10	0.87	0.62	30.17

The commissioning of the Sulphide Project started in mid-November 2008. Commissioning activities for operations of a similar size generally last between three to six months, as operators attempt to achieve optimal levels of production. The construction of the plant is complete, except for the sulphide dam, which is expected to be built progressively in stages. The primary focus of the operations team has been on plant optimization and metallurgical performance. The team has developed operating systems and procedures to manage the behavior of the complex ore being treated by conducting a geological review of



the ore body to better define ore-type contacts. Blending strategies and procedures have been created and are continuously being refined, resulting in improved metallurgical performance in the mill. In addition, geological grade control procedures have been developed and improved.

	Ore milled (dry metric tonnes)	Milling rate (tonne/hour)	Percent recovery		
			Cu	Au	Ag
November - December 2008	21,192	35.26	32.8	17.8	22.6
January 2009	29,608	44.14	60.9	29.2	30.5
February 2009	24,375	48.99	78.3	35.9	42.4
March 1 - 26, 2009	22,834	55.44	60.6	29.6	35.6

Rapu Rapu

The Rapu Rapu mine, located in the province of Albay in 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, TVI was granted a 2.5% Net Smelter Royalty (“NSR”). However, on February 6, 2008, the Lafayette Group filed a petition for Corporate Rehabilitation. The Pasig City Regional Trial Court issued a Stay Order on all claims against the Lafayette Group. On March 19, 2008, the Company filed a Notice of Claim against the Lafayette Group for unpaid NSR of US\$3.9 million. On May 14, 2008, the Lafayette Group sold its ownership in the Rapu Rapu Mine to Philco Resources Ltd., a subsidiary of LG International and Korean Resources Incorporated; however, TVI’s claim is still with the Lafayette Group. The Lafayette Group filed a Modified Integrated Rehabilitation Plan with the Court on October 17, 2008, to which the Company filed a Comment on December 4, 2008 as the revised plan did not consider the claims of the Company. The Court has directed the Rehabilitation Receiver to meet with the Lafayette group’s creditors to determine from them individually the options acceptable to each of them as presented by the revised plan. TVI expects to meet with the Rehabilitation Receiver before March 31, 2009 as the Court has directed the Lafayette group to submit a Final Rehabilitation Plan on or before that date.

DRILLING OPERATIONS

The Company has made the decision to focus on its core business activities at Canatuan and its exploration tenements in the Philippines; therefore, TVI has been actively marketing the sale of its drilling operations. On February 29, 2008, the Company successfully closed the sale of HPGEI, which held the drilling operations in the People’s Republic of China. In July 2008, the Company sold its drilling assets located in Kyrgyzstan. TVI’s remaining contract drilling operations are owned and operated by Exploration Drilling Corporation (“EDCO”), a wholly-owned subsidiary with operations located in the Philippines. The Company continues to explore opportunities to sell its remaining drilling operations.

EXPLORATION

Canatuan Near-Mine Tenements

There is great potential for new Canatuan-type orebodies on the tenements surrounding the current Canatuan mine operations. TVI has identified numerous surface prospects within trucking distance of the current mill site. These include:

1. Tagingan – Outcrop samples show up to 5.5 gpt Au and 1.8% Cu. The banded sulphide horizon reaches up to 20 metres near the surface.
2. Matigdao and Palalian – Channel samples range from Cu up to 7.9%; 2.62 gpt Au to 14.19 gpt Au; and 101.5 gpt Ag to 567.2 gpt Ag.

A long-term “Mining Camp” potential within a strong Volcanogenic Massive Sulphide system extends over a 40 kilometre zone representing a 371 km² tenement area. The hosted in schist formation is similar to



that known to host the current Canatuan orebodies. TVI plans to conduct airborne geophysical surveys over the tenement area as soon as funding is available.

Balabag

In addition to the near-mine exploration at Canatuan, which is the Company's primary exploration priority, the Balabag exploration project is another one of TVI's high priority projects. In February 2008, the Company exercised the option it holds on the Balabag property under an agreement with Zamboanga Minerals Corporation for US\$350,000. TVI paid US\$50,000 in cash in February 2008 and in February 2009 paid the remaining US\$300,000 through a private placement of 23,228,444 common shares from treasury, at a price of \$0.016 per share. Under the option, the Company acquired the rights and obligations of the Balabag property which covers an area of approximately 48 km². The property is situated approximately 75 kilometres east-northeast of the Canatuan Mine and immediately adjacent to part of the extensive 1,257 km² tenement applications filed in 2005.

Based on preliminary exploration results, TVI believes that the Balabag property has the potential to become a second production center for the Company. TVI commissioned Genivar Limited Partnership, an independent mining consultant, to conduct a scoping study on the Balabag property. On July 17, 2008, Genivar presented TVI with the comprehensive scoping study, which was prepared in accordance with NI 43-101. The purpose of the scoping study was to assess the mining potential of a stand-alone commercial scale mining operation centered on the currently delineated Balabag deposit and to provide an order of magnitude of its economic potential. The Company filed the document titled "Scoping Study of the Balabag Project" with certain securities regulatory authorities in Canada on August 21, 2008.

Significant information and assumptions set out in the Balabag scoping study show a net present value range of US\$19.8 million to US\$36.1 million over six and five years respectively, discounted at 10% (values were calculated using \$650/oz Au and \$13/oz Ag for Base Case 1 and \$900/oz Au and \$17/oz Ag for Base Case 2). The base cases presented in the scoping study are preliminary in nature and a definitive feasibility assessment will need to be completed to enable management and the Board of Directors of the Company to make a production decision in respect of the Balabag exploration project. This feasibility work is expected to entail (i) additional exploration drilling, resource/reserve modeling and pit optimization; (ii) detailed engineering bids and costing reviews; and (iii) geotechnical, environmental, and socio-political baseline studies. TVI intends to undertake feasibility work as funding becomes available in order to secure all necessary operating permits and to enable the Company to reach a production decision in a timely manner.

Tamarok - Tapisa

In North Zamboanga, TVI's applications cover almost all the targets identified by a prior exploration program, conducted by a major international company, numbering at least 20 epithermal gold, massive sulphide and porphyry copper-gold prospects. The Tamarok copper gold project and the Tapisa exploration project are located 60 kilometres north-northeast of TVI's Balabag exploration project. Exploration work supports historical findings and has discovered new prospects, including:

1. Malachite Hill – yielded 38 metres averaging 0.705% Cu and 0.35 gpt Au
2. Silawa-Disakan Creek – yielded more than 110 metres averaging 0.3% Cu
3. Tigon – yielded 22 metres averaging 0.92% Cu and 0.14 gpt Au

After completing the final permitting process, TVI plans to conduct geophysical surveys, carry out systematic detailed geological investigations, further delineate drill targets on surface, and schedule a diamond drilling program.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**



Other

Other potential exploration projects include the Bonbon Epithermal Gold System and North Zamboanga Tenements.

NON-GAAP MEASURES

Funds from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash 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.

SELECTED ANNUAL INFORMATION

	2008	2007
Revenue:		
Canatuan	\$ 5,968,702	\$ 34,076,729
Drilling	1,237	263,248
Exploration	2,762	-
Corporate	63	16,722
	<u>5,972,764</u>	<u>34,356,699</u>
Net income (loss) from continuing operations:		
Canatuan	(2,134,341)	1,593,534
Drilling	158,404	(1,641,013)
Exploration	(1,577,481)	(3,069,042)
Corporate	(9,063,712)	(6,185,522)
	<u>(12,617,130)</u>	<u>(9,302,043)</u>
Net income (loss) per share – basic and diluted	(0.031)	(0.023)
Net income (loss) from discontinued operations:		
Canatuan	-	-
Drilling	(26,620)	(341,056)
Exploration	(56,743)	(688,916)
Corporate	(13,786)	(707,127)
	<u>(97,149)</u>	<u>(1,737,099)</u>
Net income (loss) per share – basic and diluted	(0.000)	(0.004)
Net income (loss):		
Canatuan	(2,134,341)	1,593,534
Drilling	131,784	(1,982,069)
Exploration	(1,634,224)	(3,757,958)
Corporate	(9,077,498)	(6,892,649)
	<u>(12,714,279)</u>	<u>(11,039,142)</u>
Net income (loss) per share – basic and diluted	(0.031)	(0.027)
Total assets	<u>39,674,019</u>	<u>23,390,643</u>

CONSOLIDATED RESULTS OF OPERATIONS

During the year ended December 31, 2008, TVI incurred a consolidated net loss of \$12.7 million. In the previous year, the Company had net loss of \$11.0 million. Included in the current period results is the gain on sale of \$2.4 million for the Company's China operations, Kyrgyzstan drilling assets, and various other



assets sold during the period. Total sales revenue decreased by \$28.4 million and mining, milling, drilling, and selling expenses decreased about \$18.9 million. During the year ended December 31, 2008, the Canatuan Mine segment produced a net loss before amortization, accretion, and impairment loss of \$0.1 million, compared with a net income before amortization, accretion, and impairment loss of \$8.8 million in 2007.

During the year ended December 31, 2008, the Canatuan Mine generated revenues of \$6.0 million compared with \$34.1 million in 2007. As the gossan reserves were depleted in early April 2008, there was only about three months of operations in 2008, compared with a full year of operations in 2007.

There were no drilling contracts for the years ended December 31, 2008 and 2007. During the year, the Company made efforts to reduce its operating expenses in the drilling segment as the main business focus was on the Canatuan Mine. Therefore, net continuing loss before sale of properties was about \$0.6 million in 2008, compared with a loss of \$1.6 million in 2007. The Company made the decision during the fourth quarter of 2007 to sell portions of its drilling assets. In February 2008 and July 2008 respectively, the Company sold all its drilling assets located in China and Kyrgyzstan. The Company is trying to find opportunities to sell the remaining drilling operations in the Philippines.

Mining, milling, drilling, and selling expenses for the year ended December 31, 2008 were about \$5.7 million compared to \$24.5 million in 2007, which is a 77% reduction. There were only three operational months during the year, which resulted in minimal variable costs. Starting mid-May 2008, expenses directly attributable to the construction of the sulphide plant were capitalized as a part of construction in progress.

Amortization, accretion, and impairment expenses decreased by \$5.4 million compared to last year. The assets related to the Canatuan gossan plant were impaired and written off during the later half of 2007; therefore, the amortization on these assets was still recognized for the most part of 2007. In addition, the amortization of mill equipment was suspended in May 2008 as it was not being utilized in operations due to the cessation of gossan operations. During the year ended December 31, 2008, the Company recorded an impairment loss of \$0.7 million, compared with \$1.3 million in 2007, with respect to equipment previously used in the gossan operations at Canatuan. The equipment written down in 2008 was initially assessed to be transferred and used in the Sulphide Project operations; however, during the construction of the sulphide plant, the Company assessed that the equipment could no longer be used.

Exploration expenses totaled \$1.6 million during the year ended December 31, 2008, which is a \$1.1 million or 41% drop compared to 2007. Due to the shortage of funding, the Company could not conduct the same level of exploration activities as the prior period. The costs incurred in the current year are fixed costs, such as salary expense, and payment for the exercise of the Company's option to acquire the rights and obligations of the Balabag property. The Company plans to continue exploration efforts as soon as additional financing is available.

Administrative and general expenses decreased approximately \$3.7 million. EDCO administrative and general costs decreased about \$1.0 million due to downsizing and minimal activities in 2008. The Company also decreased its corporate security expenses as well as its accounting, legal, and consultant fees during the year.

CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Funds from operations, calculated as cash from operating activities before working capital changes and discontinued operations, was a deficit of \$7.4 million in 2008. The deficit was primarily attributable to the cessation of the Canatuan gossan operations and the lack of third party drilling contracts during the year. While expenses directly attributable to the construction of the Canatuan sulphide plant were capitalized during the year, general and administrative costs continue to be incurred. There were minimal revenues during the year to finance the general and administrative costs.



During the current year, the Company received proceeds of about \$1.9 million for the sale of its China operations, of which \$0.3 million is held as restricted cash. The proceeds went to decrease accounts payable and loans from shareholders. The Company also sold its drilling assets located in Kyrgyzstan for proceeds of about US\$1.2 million, of which half is receivable by June 2009. The Company had capital expenditures of \$14.7 million related to the construction of the Canatuan sulphide plant.

On December 27, 2007, the Company signed a memorandum of agreement with an arms length entity to obtain 42 million Philippine pesos at an interest rate of 15% per annum as bridge financing for the Canatuan Sulphide Project. During Q2 2008, the Company sold a surplus ball mill to the arms length entity at net book value for proceeds of approximately \$80,000. The amount was deducted from the principal due. The Company repaid both loan principal and interest on the due date of October 16, 2008.

At December 31, 2008, the Company had outstanding demand promissory notes totaling \$1,069,778 and US\$750,000 to corporations owned by the President of the Company. The demand promissory notes bear interest at 12% and 14.12% per annum and have no fixed terms of repayment. Including accrued interest, the total amount in promissory notes outstanding at the end of the year was \$1,998,659. Subsequent to the period, the Company retired \$318,440 and US\$223,252 (\$273,394) through a private placement of common shares. Therefore, at December 31, 2008, \$591,834 of the due to related party amount has been reclassified as a non-current liability as it will be settled in common shares.

In March 2008, the Company secured a US\$15.0 million bridge financing facility with LIM Asia Arbitrage Fund Inc. and LIM Asia Special Situations Master Fund Limited (the "Lenders" or "LIM") at a rate of 14% per annum. The Company drew down US\$6.0 million in each of the months of April 2008 and July 2008, and drew down the remaining US\$3.0 million in August 2008. In October 2008, the loan agreement was amended which allowed the Company to draw down an additional US\$5.0 million, of which US\$3.0 million was received in October 2008 and the remaining US\$2.0 million was received in November 2008. The loan agreement was further amended in December 2008, increasing the loan amount by US\$5.2 million. Funds of US\$4.3 million and US\$0.9 million were received in December 2008 and January 2009, respectively. At December 31, 2008, the total principal borrowed under the bridge financing facility was US\$25,682,038 (\$31,247,227) with accrued interest of \$188,824.

On January 20, 2009, the Company signed a five-year term loan facility agreement with the Lenders providing for a US\$29,926,801 term loan (the "Facility"). Subsequent to the signing of the agreement, an additional US\$175,239 in accrued interest was added to the principal amount as a result of a one week extension in the completion of the conditions precedent. On February 6, 2009, the Company converted its bridge financing facility into a term loan. In addition, the Company drew down US\$2.8 million from the Facility in February 2009 to provide additional capital to support the activities in the Canatuan Sulphide Project. As the Company successfully refinanced its bridge financing facility subsequent to December 31, 2008, the Company has reclassified the non-current portion of the refinanced bridge financing facility as a non-current liability in the amount of \$27,623,417. The expected principal repayment over the next year of \$3,812,634 continues to be classified as current loan payable.

The term of the Facility is five years ending on January 20, 2014. After an initial 180 day period from the date of the initial advance, the Company is required to begin repaying principal and interest amounts outstanding. The Facility is subject to a fixed arrangement fee in the amount of US\$195,000 and funds borrowed under the Facility bear interest at the rate of 10% per year calculated on the original principal balance, irrespective of the actual outstanding balance of the loans payable, until the outstanding principal balance of the Facility is paid in full. Interest payments are to be made monthly beginning in July 2009. In connection with the execution of the Facility, the Company issued to the Lenders share purchase warrants entitling them to purchase up to 71,689,734 common shares in the capital of TVI at any time and from time to time until January 20, 2014, at a purchase price of \$0.016 per share.

Under the Facility terms the Lenders, collectively, have the right to nominate a person for election as a director of each of TVIRD and TVI Pacific Inc. and the Company has agreed to use reasonable efforts to cause the election of the director nominees designated by the Lenders.



The Company has also entered into an Advisory Agreement with a third party (the "Advisor"). The Advisor will be entitled to a fee equal to 10% per year of the original Facility amount of US\$30,102,040. The fee of US\$752,551 is payable on the last business day of each quarter. In addition, commencing December 31, 2010, the Advisor will be entitled to profit participation of 40% of any cash surplus in TVIRD.

In connection with the Facility, the Company entered into a Debt Conversion Agreement with Seajay Management Enterprises Ltd. ("Seajay") and Regent Parkway 3202 Management Inc. ("Regent"), both corporations controlled by Clifford M. James, President and Chief Executive Officer of TVI. On February 19, 2009, the Company issued 19,902,492 common shares to Seajay and 17,285,979 common shares to Regent, in partial satisfaction of indebtedness owing to them by the Company. In both cases, the shares were issued at a price of \$0.016. A total of \$318,440 and US\$223,252 was retired, leaving \$751,338 in principal owing to Seajay and US\$526,748 in principal owing to Regent.

The Company has lines of credit with the Bank of the Philippine Islands which accrue interest at between 8.75% and 9.25% and are payable over four equal monthly installments that will start 90 days from the withdrawal dates. The total amount payable to the bank at December 31, 2008 was \$1,069,393.

The Company completed considerable construction activity on the Canatuan sulphide plant during the most recent quarters. The Company had capital expenditures totaling \$14.7 million, using proceeds from the sale of assets and financing available from the facilities with the Lenders. Additional financing will be required to finance operating working capital requirements.

Going Concern

As a result of capital spending on the Canatuan sulphide plant and other capital projects, operating losses in the drilling segment, and the cessation of the gossan mining operations at Canatuan, the Company's working capital deficiency increased during the period. The working capital deficiency was \$12.5 million at December 31, 2007 and has decreased to \$8.9 million at December 31, 2008. The working capital deficiency includes advances from a related party of \$1.8 million.

The Company's ability to continue as a going concern and the recoverability of amounts recorded for property and equipment depend upon continued financial support from creditors, obtaining sufficient financing for working capital requirements, re-establishing the profitability of the Canatuan operations through the newly constructed sulphide plant, stable commodity prices, and selling non-core assets. The Company is continuing its efforts to implement plans instituted to improve its financial position and operating efficiencies by implementing initiatives to reduce ongoing operating costs and selling non-core assets.

The Company's financial condition as at December 31, 2008, the delay in obtaining additional financing for the Canatuan sulphide plant, and variable commodity prices, are circumstances that lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

OUTLOOK

TVI believes that there is significant value in the Canatuan Sulphide Project and its various exploration projects, including the Canatuan near-mine tenements and the Balabag exploration project. TVI intends to fund its exploration activities, from cash flow generated from the Canatuan Sulphide Project, future debt financing, future equity offerings, and sales of non-core assets.

The Company's near term objective is to raise equity to provide sufficient working capital for the Canatuan Sulphide Project and allow the immediate development of the Balabag exploration project. TVI plans to finalize a development plan for the Balabag exploration project, create initial plans for its other exploration tenements, and evaluate opportunities to acquire new properties to further expand the Company's portfolio of properties in the Philippines. In addition, the Company will leverage off of its



existing Canatuan facilities and determine if the Canatuan near-mine tenements can be economically mined.

TVI's financing strategy is to market locally in Canada, as well as internationally in Asia, Europe, and the United States. The Company is currently entertaining potential investors in the Philippines, as well as in Canada. TVI is also considering strategic alliances or joint ventures with other mining companies to benefit from economies of scale.

QUARTERLY FINANCIAL INFORMATION

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

	Revenue	Net Income (Loss)	Net Income (Loss) per Share	
			Basic	Diluted
December 31, 2008	\$ 111	\$ (5,220)	\$ (0.0128)	\$ (0.0128)
September 30, 2008	96	(3,610)	(0.0089)	(0.0089)
June 30, 2008	757	(3,238)	(0.0080)	(0.0080)
March 31, 2008	5,009	(646)	(0.0014)	(0.0014)
December 31, 2007	4,945	(5,510)	(0.0137)	(0.0137)
September 30, 2007	7,520	(4,628)	(0.0115)	(0.0115)
June 30, 2007	11,403	159	0.0004	0.0004
March 31, 2007	10,489	(1,060)	(0.0027)	(0.0027)

Over the past eight quarters, the Company generally experienced declining revenues as a result of the expected depletion of the gossan reserves. While there was still a full year of production in 2007, the Company experienced decreasing recoveries, decreasing metal grades, adverse weather conditions, and mechanical breakdown during the last two quarters of 2007. The gossan mining and milling operations ceased in Q1 2008.

Although revenues were declining during the last two quarters of 2007, the Company continued to incur high mining and milling costs as the average daily throughput increased. However, the Company was not able to produce an amount of product to be profitable due to declining recovery rates; therefore, the Company experienced net losses during the last two quarters of 2007.

Throughout 2008, the Company attempted to minimize its general and administrative costs while constructing the Canatuan Sulphide Project. The Company realized a gain from the sale of its China operations in the first quarter. In the last quarter of the year, the Company incurred additional costs required to commission the sulphide plant, which started up in November 2008.

NEW ACCOUNTING PRONOUNCEMENTS

Inventories

In March 2007, the Canadian Institute of Chartered Accountants ("CICA") issued a new section 3031, Inventories, which will replace the existing section 3030 of the same title. The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The Company adopted this standard on January 1, 2008 and did not record any adjustments.

Capital Disclosures

In December 2006, the CICA issued section 1535, "Capital Disclosures". The section establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objective, policies, and processes for managing capital and quantitative disclosure about what a company regards as capital are required. The financial statements reflect the adoption of the standard.



Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued section 3862, “Financial Instruments Disclosures” and section 3863, “Financial Instruments Presentation”. Sections 3862 and 3863 replace section 3861, “Financial Instruments – Disclosure and Presentation”. Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The financial statements reflect the adoption of the standard.

Convergence with International Reporting Standards

In 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The convergence will take effect on January 1, 2011. The impact of this transition on the Company’s consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments. The Company’s Philippine affiliates have already implemented convergence with International Reporting Standards as required under local statutory reporting purposes.

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:

- Management assumes that the Company will continue to be a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.
- 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.
- The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the



period that includes the enactment date. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

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.

As discussed in the liquidity section of this document, at the end of the period, the Company had promissory notes totaling \$1.1 million and US\$0.8 million outstanding respectively to Seajay and Regent. During 2008, Seajay charged the Company \$574,093 for management fees for services of the President, the Chief Financial Officer, one accounting staff, two investor relations staff, and two administrative staff. At the end of the year, the Company owed Seajay \$66,406 for unpaid management fees and advances made for working capital purposes.

CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

In March 2008, the Company was named in a proceeding alleging impropriety in relation to the Company's historical share option granting practices and misrepresentations in prior financial statements that were restated in 2007. The Company's Board of Directors appointed a Special Committee and engaged independent legal counsel to review the share option related allegations set out in the claim. The Company's insurer has accepted the claim and has been covering the costs required to defend the Company, subsequent to a retention amount that was accrued in 2007 and paid in 2008. The parties have reached an agreement in principle to settle the proceeding and are working to formalize the terms of settlement, which would be subject to court approval. The Company anticipates finalizing the settlement in the second quarter of 2009.

The Company's Canada office rents its office premises on a long-term lease. At December 31, 2008, the minimum rent payments amount to approximately \$92,132 for 2009 to 2010. Certain recoveries are made under short-term sub-leasing arrangements.

ADDITIONAL INFORMATION

The Company's outstanding common shares as at December 31, 2008 were 406,240,640 and 466,657,555 at March 26, 2009. The basic and diluted weighted average number of common shares issued and outstanding during the year ended December 31, 2008 was 406,240,640 (2007 - 403,117,725). No adjustments were required to the weighted average number of common shares in computing diluted per share amounts for the years ended December 31, 2008 and 2007 as the Company was in a loss position for these periods.

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 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 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 and operating effectiveness of internal controls over financial reporting as of December 31, 2008 and has identified material weaknesses in such controls with respect to the consolidation of its foreign subsidiaries and affiliates including the translation of foreign currencies.

The Company has completed a comprehensive review of its consolidation procedures and redesigned its internal controls over financial reporting to reduce the risk of material misstatements. Management is continuing its efforts to further strengthen internal controls over financial reporting. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that internal controls over financial reporting provide a reasonable level of assurance they do not expect that the internal controls over financial reporting 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.



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Toronto Stock Exchange Symbol: TVI

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TVI Pacific Inc.

Consolidated Financial Statements

**For the Years Ended
December 31, 2008 and 2007**

Auditors' Report

To the Shareholders of TVI Pacific Inc.:

We have audited the consolidated balance sheets of TVI Pacific Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, of deficit and accumulated other comprehensive loss and of cash flows for each of the years in the two year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary

March 26, 2009

TVI Pacific Inc.
Consolidated Balance Sheets
December 31, 2008 and 2007
(in Canadian dollars)



	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,754,102	\$ 1,028,833
Accounts receivable	931,328	732,997
Advances to suppliers	100,271	59,683
Inventories (note 4)	2,373,803	2,890,471
Prepaid expenses	267,260	218,363
Assets held for sale (note 6)	-	764,754
	6,426,764	5,695,101
Restricted cash (note 6)	367,380	-
Property and equipment (note 5)	32,879,875	17,695,542
	\$ 39,674,019	\$ 23,390,643
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,322,685	\$ 13,296,612
Liabilities related to assets held for sale (note 6)	-	477,281
Current loan payable (note 7)	4,882,027	994,980
Current portion of asset retirement obligation (note 9)	1,357,787	594,236
Due to related parties (note 13)	1,789,249	2,866,436
	15,351,748	18,229,545
Long term payable (notes 11b and 16)	367,380	-
Due to related parties (notes 11b and 13)	591,834	-
Loan payable (note 7b)	27,623,417	-
Pension obligation (note 8)	690,996	424,534
Asset retirement obligation (note 9)	1,445,432	1,405,734
	46,070,807	20,059,813
Shareholders' equity:		
Share capital (note 11b)	21,017,205	21,017,205
Contributed surplus (note 11d)	3,666,827	3,592,382
Deficit	(30,983,982)	(18,269,703)
Accumulated other comprehensive loss	(96,838)	(3,009,054)
	(6,396,788)	3,330,830
	\$ 39,674,019	\$ 23,390,643

Going concern (note 1)
Commitments (note 16)
Contingencies (note 17)
Subsequent events (notes 1, 7, 11, 13 and 16)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

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

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

TVI Pacific Inc.
Consolidated Statements of Operations and Comprehensive Loss
December 31, 2008 and 2007
(in Canadian dollars)



	2008	2007
Revenues:		
Sales	\$ 5,954,489	\$ 34,348,113
Interest	18,275	8,586
	<u>5,972,764</u>	<u>34,356,699</u>
Expenses:		
Mining, milling, drilling, and selling expenses	5,652,780	24,522,128
Exploration costs	1,580,243	2,677,187
Administrative and general costs	5,139,187	8,776,487
Amortization, accretion, and impairment	2,280,668	7,710,192
Interest expense	1,832,224	74,926
Foreign exchange loss	4,478,211	174,271
Gain on sale of assets	(2,373,419)	(276,449)
	<u>18,589,894</u>	<u>43,658,742</u>
Net loss from continuing operations	<u>(12,617,130)</u>	<u>(9,302,043)</u>
Loss from discontinued operations (note 6)	(97,149)	(1,737,099)
Net loss	<u>(12,714,279)</u>	<u>(11,039,142)</u>
Other comprehensive income (loss):		
Change in fair value of investments	-	(57)
Foreign currency translation adjustment	(344,554)	93,043
Deemed realization of cumulative foreign currency translation	3,256,770	-
	<u>2,912,216</u>	<u>92,986</u>
Comprehensive loss	<u>\$ (9,802,063)</u>	<u>\$ (10,946,156)</u>
Net loss per share:		
Basic and diluted – continuing operations	\$ (0.031)	\$ (0.023)
Basic and diluted – discontinued operations	(0.000)	(0.004)
Basic and diluted	(0.031)	(0.027)
Weighted average number of common shares:		
Basic and diluted (note 12)	406,240,640	403,117,725

See accompanying notes to the consolidated financial statements.

TVI Pacific Inc.
Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss
December 31, 2008 and 2007
(in Canadian dollars)



	2008		2007
Deficit, beginning of year	\$ (18,269,703)	\$	(7,230,561)
Net loss	(12,714,279)		(11,039,142)
Deficit, end of year	\$ (30,983,982)	\$	(18,269,703)
Accumulated other comprehensive loss, beginning of year	\$ (3,009,054)	\$	(3,102,097)
Other comprehensive income	2,912,216		92,986
Adoption of financial instruments	-		57
Accumulated other comprehensive loss, end of year	\$ (96,838)	\$	(3,009,054)

See accompanying notes to the consolidated financial statements

TVI Pacific Inc.
Consolidated Statements of Cash Flows
December 31, 2008 and 2007
(in Canadian dollars)



	2008	2007
Cash provided by (used in):		
Operating:		
Net loss from continuing operations	\$ (12,617,130)	\$ (9,302,043)
Items not involving cash:		
Amortization, accretion, and impairment	2,280,668	7,710,192
Inventory obsolescence and write-offs	25,223	95,306
Accretion on convertible debentures	-	30,388
Stock based compensation	74,445	789,087
Unrealized foreign exchange loss	4,909,152	199,404
Gain on sale of property and equipment	(721,109)	(269,479)
Gain on sale of investment	(1,652,310)	(6,970)
Pension obligation	266,462	264,472
	(7,434,599)	(489,643)
Change in non-cash working capital (note 14)	(6,071,515)	4,326,474
	(13,506,114)	3,836,831
Loss from discontinued operations	(97,149)	(1,737,099)
Change in non-cash working capital (note 14)	(2,708)	477,730
	(99,857)	(1,259,369)
Financing:		
Debt facilities issued	27,982,685	994,980
Shares and warrants issued	-	292,076
Received from (repayment to) related parties	(430,869)	2,737,854
Long term payable	367,380	-
	27,919,196	4,024,910
Investing:		
Change in restricted cash	(293,940)	-
Expenditures on property and equipment	(14,738,692)	(10,065,613)
Proceeds on disposal of property and equipment	1,032,194	269,479
Proceeds on sale of investment	1,942,491	77,106
Realized foreign exchange in net investment	226,868	208,837
	(11,831,079)	(9,510,191)
Change in non-cash working capital (note 14)	(910,962)	2,544,209
	(12,742,041)	(6,965,982)
Effect of foreign exchange rates on cash	154,085	(18,444)
Increase (decrease) in cash	1,725,269	(382,054)
Cash and cash equivalents, beginning of year	1,028,833	1,410,887
Cash and cash equivalents, end of year	\$ 2,754,102	\$ 1,028,833
Supplemental cash flow information:		
Interest paid	\$ 475,355	\$ 84,706
Interest received	2,723	-

See accompanying notes to the consolidated financial statements.



1. Going concern:

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. In the event that TVI Pacific Inc. ("TVI" or the "Company") cannot maintain the ability to meet its obligations as they come due, the use of accounting principles applicable to a going concern will no longer be appropriate. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenue and expenses, and balance sheet classifications that would be necessary if the Company is unable to continue operating as a going concern in the future. These adjustments could be material.

At December 31, 2007, the Company's working capital deficiency was \$12.5 million and has decreased to \$8.9 million at December 31, 2008. The working capital deficiency includes advances from a related party of \$1.8 million. During 2008, the Company incurred significant capital spending on the Canatuan sulphide plant in addition to general and administrative costs. The Company suffered operating losses due to the lack of revenue source as a result of the anticipated deteriorated mine grades at the Canatuan gossan plant. Gossan milling activities ceased on April 9, 2008. However, subsequent to the period, the Company successfully refinanced its bridge financing facility resulting in the reclassification of a portion of current loan payable from current to non-current liability.

The Company's ability to continue as a going concern and the recoverability of amounts recorded for property and equipment depends upon continued financial support from creditors and obtaining sufficient financing for working capital requirements, re-establishing the profitability of the Canatuan operations through the newly constructed sulphide plant, stable commodity prices, and selling non-core assets. The Company is continuing its efforts to implement plans to improve the financial position and operating efficiencies and has implemented initiatives to reduce ongoing operating costs and to monetize non-core assets. In February 2008, the Company sold its China operations and assets for proceeds of US\$2.0 million (note 6). In July 2008, the Company sold its assets located in Kyrgyzstan for proceeds of US\$1.2 million, half of which was received in July 2008 and the remaining half is due by June 2009. The Company is currently seeking a buyer for its remaining drilling assets.

In March 2008, the Company secured a bridge financing facility with an arms length party. The Company drew down a total of US\$24.3 million during the year and US\$0.9 million in January 2009 on the facility. In January 2009, the Company signed a five-year term loan facility in order to convert the bridge financing facility into a term loan and to provide additional capital to support mining and processing activities at the Canatuan sulphide plant. The term loan principal is US\$30.1 million and bears interest at the rate of 10% per year calculated on the original principal balance, irrespective of the actual outstanding balance of the loan, until the outstanding principal balance of the term loan is paid in full. In addition, the Company is required to pay a quarterly advisory fee equal to US\$752,551. In February 2009, the bridge financing facility was converted to a term loan and the Company drew down US\$2.8 million under the new facility.

The Company's financial condition as at December 31, 2008, the delay in obtaining additional financing for the Canatuan sulphide plant, and variable commodity prices, are circumstances that lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

2. Nature of operations:

TVI is a mining company focused on 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. ("TVI Resource"). The Company operated a commercial gold and silver mine from 2005 to April 2008 and has constructed the copper and zinc mine for commercial production.

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



3. Significant accounting policies:

(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, TVI Mineral Processing Inc. (“TVI Processing”), Tiamut International Limited (“Tiamut”), and Hunan Pacific Geological Exploration Inc. (“HPGEI”), as well as TVI Resource and nineteen inactive Philippine subsidiaries.

Of the issued and outstanding shares of each of the nineteen Philippine subsidiaries, 40% are owned by TVI Marketing and 60% are owned by TVI Resource. TVI Resource shares are owned 40% by TVI Marketing with the remaining 60% owned by Philippine residents or companies. These companies have been consolidated in accordance with Canadian Generally Accepted Accounting Principals (Accounting Guideline 15 - Consolidation of Variable Interest Entities) as they meet the criteria of variable interest entities and TVI is the primary beneficiary. The non-controlling interest arising on consolidation will not be recognized until such time as previously absorbed losses of these companies are recovered.

All intercompany balances and transactions have been eliminated.

(b) Inventories

Inventories consist of consumable drilling parts, drilling supplies, mineral processing supplies, work in progress, finished products and stockpile ore recorded at the lower of their cost and net realizable value based on a first in first out method.

For work in progress and finished goods, all direct production costs and some administrative costs are included in determining the cost. Stockpiled ore inventory includes the cost of extraction and hauling.

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) new accounting standards for measurement and disclosure requirements for inventories. The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The adoption of this standard did not result in any adjustments.

(c) Exploration costs

The Company expenses all exploration costs as incurred until proven and probable reserves are identified and a development decision has been made. Such costs include acquisition, exploration, operating, other related costs and administration expenditures net of any mineral revenues received.

(d) Property, equipment, and depreciation

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

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

Depreciation of these assets is provided at rates designed to amortize their cost, over their estimated useful lives at the undernoted rates and methods.

	Method	Years
Canatuan sulphide plant:		
Property and equipment	Straight-line	2 – 10 years
Drilling and other operations	Straight-line	2 – 10 years



3. Significant accounting policies (continued):

(e) Impairment of long-lived assets

The Company evaluates the property and equipment for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When such a determination is made, management's estimate of the undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether the recoverability of the carrying value has been impaired. If an impairment of the carrying value has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Judgments and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment.

(f) Defined benefit plan

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

(g) Asset retirement obligation

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

(h) Foreign currency translation

The Company's Philippine and Chinese affiliates, are accounted for as self-sustaining operations. The accounts of these affiliates are translated into Canadian dollars from the functional currencies using the current rate method. Under this method, assets and liabilities are translated using period-end exchange rates, with revenues and expenses translated using average rates for the period. Unrealized gains and losses arising on translation of these operations are included in the foreign currency translation adjustment within other comprehensive income.

(i) Revenue recognition

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

Drilling revenue is recognized as earned, based upon the number of meters drilled at contracted rates. Advance payments on contracts are deferred and recognized as the related revenue is earned.



3. Significant accounting policies (continued):

(j) Share option plan

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

(k) Income taxes

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(l) Per share amounts

Net income (loss) per common share is computed by dividing net income (loss) for the year by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(m) Discontinued operations

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

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

(n) Use of estimates

The preparation of timely financial statements necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Significant areas requiring the use of estimates include the reserve estimates used to measure amortization of property and equipment, asset retirement obligations, the fair value of financial instruments, balances of accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation, and the determination of asset retirement obligations. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.



3. Significant accounting policies (continued):

(o) *Financial instruments and other comprehensive income*

Comprehensive income

The Company's financial statements include a Statement of Comprehensive Income, which includes net income and other comprehensive income. The Company's other comprehensive income ("OCI") is currently comprised of the changes in the foreign currency translation adjustment of self sustaining foreign operations and unrealized changes in the fair market values of financial instruments.

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

Financial instruments

The financial instrument standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets "held-to maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest rate method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged during the year.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Cash equivalents are highly liquid with original maturities of three months or less.

Restricted cash, accounts receivable, and advances to suppliers are designated as "loans and receivables". Accounts payable and accrued liabilities, short-term debt, and long-term liabilities are designated as "other financial liabilities".

In December 2006, the CICA issued Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". Section 3862 and Section 3863 replace 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The financial statements reflect the adoption of the standard.

(p) *Capital disclosures*

In December 2006, the CICA issued Section 1535, "Capital Disclosures," which establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objective, policies, and processes for managing capital and quantitative disclosure about what a company regards as capital are required. The financial statements reflect the adoption of the standard.

(q) *Accounting changes*

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



3. Significant accounting policies (continued):

(r) International financial reporting standards

In January 2006, the CICA 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.

(s) Comparative figures

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

4. Inventories:

	2008	2007
Consumable drilling parts and supplies	\$ 518,522	\$ 881,672
Mineral processing supplies	904,632	1,323,447
Metal inventory:		
Work in progress and finished goods	942,070	411,325
Stockpiled ore	8,579	274,027
	\$ 2,373,803	\$ 2,890,471

During the year ended December 31, 2008, the Company recognized \$2,426,644 (2007 - \$11,863,555) of inventory as expense under Mining, milling, drilling, and selling expenses. Provisions for inventory obsolescence amounted to \$25,223 during the year ended December 31, 2008 (2007 - \$95,306).

5. Property and equipment:

	2008			2007	
	Cost	Accumulated amortization and impairment	Net book value	Net book value	
Canatuan sulphide plant:					
Property and equipment	\$ 34,397,139	\$ (8,980,930)	\$ 25,416,209	\$	13,925,617
Construction in progress	6,572,267	-	6,572,267	\$	1,362,916
Drilling & other operations	2,939,522	(2,048,123)	891,399	\$	2,407,009
	\$ 43,908,928	\$ (11,029,053)	\$ 32,879,875	\$	17,695,542

During 2008 and 2007, the Company wrote-off all fully amortized assets no longer in use. During the year, the Company capitalized a total of \$902,107 in interest related to financing funds used to construct the Canatuan sulphide plant.

In January 2005, the plant at Canatuan started commercial mining operations on the gossan mineral reserves. During 2007, TVI Resource suffered from decreasing ore grades, recovery rates, and production volumes; therefore, assets related to the gossan operations that cannot be utilized in the sulphide operations were written down in 2007 and 2008. The remaining assets at the Canatuan property are related to the development and construction of a plant to process ore from a sulphide deposit located beneath the gossan mine.



5. Property and equipment (continued):

During the year ended December 31, 2008, the Company recorded an impairment loss of \$678,877 with respect to equipment previously used in the gossan operations at Canatuan (2007 - \$1.3 million). The equipment was initially assessed to be transferred and used in the sulphide operations; however, during the construction of the sulphide plant, the Company assessed that the equipment can no longer be used. The Company performed an assessment over the valuation of the Canatuan sulphide plant assets and did not identify any impairment.

6. Discontinued operations:

During the fourth quarter of 2007, in an attempt to reduce ongoing operating costs and monetize non-core assets, the Company made efforts to solicit the sale of the operations and assets held in Tiamut and HPGEI ("Chinese subsidiaries"), both wholly owned subsidiaries of the Company. On February 29, 2008, the Company sold 100% share ownership of its Chinese subsidiaries to an arms length party for proceeds of US\$1,980,000 (\$1,942,491), of which US\$300,000 (\$367,380) is held in escrow and classified as restricted cash. The Company is currently reviewing the cash held in escrow with the arms length party.

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

	2008	2007
Cash and cash equivalents	\$ -	\$ 35,081
Accounts receivable	-	14,267
Inventory	-	414,763
Prepaid expenses	-	12,543
Property and equipment	-	288,100
	-	764,754
Accounts payable and accrued liabilities	\$ -	\$ 477,281

Loss from discontinued operations includes the following amounts:

	2008	2007
Revenues:		
Sales	\$ 34,459	\$ 543,690
Interest income	-	31
	34,459	543,721
Expenses:		
Mining, milling, drilling, and selling expenses	61,079	839,615
Exploration costs	56,743	688,916
Amortization and accretion	-	242,468
Foreign exchange loss	10	1,899
Administrative and general costs	13,776	507,922
	131,608	2,280,820
Loss from discontinued operations	\$ (97,149)	\$ (1,737,099)

7. Loan instruments:

(a) In December 2007, the Company signed an agreement with an arms length party for bridge financing for the Canatuan sulphide plant construction. The Company received 42 million Philippine pesos which accrued interest at 15% per annum. The Company repaid both loan principal and interest on October 16, 2008.



7. Loan instruments (continued):

- (b) A bridge financing facility was signed with LIM Asia Arbitrage Fund Inc. and LIM Asia Special Situations Master Fund Limited (the "Lenders") in March 2008, which was amended four times over the year. At December 31, 2008, the total principal borrowed under the bridge financing facility was US\$25,682,038 (\$31,247,227) with accrued interest of \$188,824 at a rate of 14% per annum.

	2008	
	(in US dollars)	
Principal loaned during 2008:		
April	\$	6,000,000
July		6,000,000
August		3,000,000
October		3,000,000
November		2,000,000
December		4,300,000
		<u>24,300,000</u>
Fees and interest converted to principal		1,382,038
Total principal, end of year	\$	<u>25,682,038</u>

In January 2009, the Company drew down an additional US\$0.9 million on the bridge financing facility.

On January 20, 2009, the Company signed a five-year term loan facility agreement ("Term Facility") with the Lenders providing for a US\$29,926,801 term loan. Subsequent to the signing of the agreement, an additional US\$175,239 in accrued interest was added to the principal amount as a result of a one week extension in the completion of the conditions precedent. On February 6, 2009, the Company converted its bridge financing facility into a term loan. In addition, the Company drew down US\$2.8 million in February 2009 to provide additional capital to support the activities at the Canatuan sulphide plant.

As the Company successfully refinanced its bridge financing facility subsequent to the period, the Company reclassified the non-current portion of the refinanced bridge financing facility as a non-current liability in the amount of \$27,623,417. The expected principal repayment over the next year of \$3,812,634 continues to be classified as current loan payable.

The term of the Term Facility is five years ending on January 20, 2014. After an initial 180 day period from the date of the initial advance, the Company is required to begin repaying principal and interest amounts outstanding. The Term Facility is subject to a fixed arrangement fee in the amount of US\$195,000 and funds borrowed under the Term Facility bear interest at the rate of 10% per year calculated on the original principal balance, irrespective of the actual outstanding balance of the loans payable, until the outstanding principal balance of the Term Facility is paid in full. Interest payments are to be made monthly beginning in July 2009. In connection with the execution of the Term Facility, the Company issued to the Lenders share purchase warrants in the capital of TVI (note 11b).

Under the Term Facility, the Lenders have the right to nominate a person for election as a director of each of TVIRD and TVI Pacific Inc. and the Company has agreed to use reasonable efforts to cause the election of the director nominees designated by the Lenders.

The Company has also entered into an Advisory Agreement with a third party (the "Advisor"). The Advisor will be entitled to a fee equal to 10% per year of the original Term Facility amount of US\$30,102,040. The fee of US\$752,551 is payable on the last business day of each quarter. In addition, commencing December 31, 2010, the Advisor will be entitled to profit participation of 40% of any cash surplus in TVIRD.

- (c) The Company has lines of credit with the Bank of the Philippine Islands which accrue interest at between 8.75% and 9.25% and are payable over four equal monthly installments that will start 90 days from the withdrawal dates. The total amount payable to the bank at December 31, 2008 was \$1,069,393.



8. Pension obligation:

	2008		2007	
Present value of unfunded obligations	\$	286,218	\$	436,535
Unrecognized actuarial gain (loss)		404,778		(8,680)
Unrecognized past service cost		-		(3,321)
Pension obligation	\$	690,996	\$	424,534

The movement in the liability recognized in the Balance Sheet is as follows:

	2008		2007	
Balance beginning of period	\$	424,534	\$	160,062
Total expense		266,462		264,472
Balance end of period	\$	690,996	\$	424,534

Pension costs recognized in the Statement of Operations are as follows:

	2008		2007	
Current service cost	\$	178,930	\$	199,132
Interest cost and foreign currency translation		85,791		58,166
Amortization of unrecognized actuarial losses		1,741		7,174
Total included in administrative and general costs	\$	266,462	\$	264,472

The actuarial assumption for discount rates were 13.1% (2007 – 8.4%) and future salary increases were 10% (2007 – 10%).

The pension plan is unfunded as of December 31, 2008 and 2007.

9. Asset retirement obligation:

As part of its development of its Canatuan mining property, the Company incurs ARO's. The Company's ARO results from its responsibility to remediate and reclaim its properties.

	2008		2007	
Canatuan mining property:				
Beginning balance	\$	1,999,970	\$	812,086
Additions – sulphide		199,074		1,008,308
Revision of estimate – gossan		231,687		-
Accretion expense – sulphide		124,739		-
Accretion expense – gossan		122,922		161,215
Liability paid		(77,129)		-
Foreign currency translation		201,956		18,361
Ending balance	\$	2,803,219	\$	1,999,970
Current portion		1,357,787		594,236
Non-current portion		1,445,432		1,405,734
Key assumptions:				
Inflation rate		5%		5%
Credit adjusted risk free rate		12%		12%
Undiscounted estimated cash flow required to settle obligation		4,348,218		3,231,148



10. Income taxes:

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

	2008	2007
Income tax rate	29.50%	32.12%
Net loss for the year	\$ (12,714,279)	\$ (11,039,142)
Expected recovery	\$ (3,750,712)	\$ (3,545,772)
Change to income taxes resulting from:		
Stock based compensation and other	(82,341)	195,320
Rate change on valuation allowance	45,505	168,787
Valuation allowance for Canadian losses	519,714	916,588
Income eligible for Philippines tax holiday	3,267,834	2,265,077
	\$ -	\$ -

Substantially all of the Company's future income tax asset relates to property and equipment and non-capital losses, all of which is provided for with a valuation allowance.

At December 31, 2008, the Company has Canadian non-capital losses available for income tax purposes of approximately \$13.3 million (2007 - \$11.9 million), which may be applied to reduce taxable income in future taxation years, the benefit of which has not been recorded to these financial statements. Of these losses, \$729,697 will expire in 2009 (2008 - \$629,248). The remaining losses expire commencing in 2010 through to 2028.

The Company has been awarded a tax holiday on its gossan mining operation by the Philippine Government and covers years 2005 to 2008. The Company has also been awarded a tax holiday on its sulphide mining operation by the Philippine Government and covers June 2008 to June 2014.

The Company has tax losses in the Philippines and China which will reduce future tax liabilities. The benefit of these tax losses has not been recorded in these financial statements.

11. 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

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	406,240,640	\$ 21,017,205	387,696,977	\$ 18,966,531
Shares issued:				
In exchange for debt obligation	-	-	15,000,000	1,568,056
On exercise of options	-	-	3,043,663	399,768
On exercise of warrants	-	-	500,000	82,850
Balance, end of year	406,240,640	\$ 21,017,205	406,240,640	\$ 21,017,205



11. Share capital (continued):

In the first quarter of 2007, the company settled the \$1,500,000 fair value of the convertible debentures by conversion into common shares. Each \$5,000 debenture was converted by the holder into 50,000 common shares for a total of 15,000,000 common shares. The conversion value of \$68,056 for the debentures was transferred from contributed surplus.

In conjunction with the Term Facility signed on January 20, 2009 (note 7b), the Company issued to the Lenders 71,689,734 warrants to purchase common shares of the Company at a purchase price of \$0.016.

On February 19, 2009, the Company issued 37,188,471 common shares to related parties in satisfaction of \$591,834 of indebtedness owing to them by the Company (note 13). In addition, the Company issued 23,228,444 common shares to Zamboanga Minerals Corporation to retire US\$300,000 (\$367,380) payable for the acquisition of the rights and obligations of the Balabag property (note 16a). In both cases, the shares were issued from treasury 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, employees, and consultants 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.

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	34,440,106	\$ 0.133	32,517,933	\$ 0.121
Granted	500,000	0.050	9,341,668	0.166
Forfeited	(3,129,725)	0.172	(3,021,725)	0.155
Expired	(11,708,711)	0.101	(1,354,107)	0.170
Exercised	-	-	(3,043,663)	0.076
Options outstanding, end of year	20,101,670	\$ 0.145	34,440,106	\$ 0.133
Options exercisable, end of year	15,230,545	\$ 0.141	21,032,591	\$ 0.119

Price range	Number outstanding December 31, 2008	Weighted average remaining contractual life (years)	Exercisable December 31, 2008
\$ 0.050 – 0.075	500,000	4.21	-
0.076 – 0.114	6,241,668	1.06	6,241,668
0.115 – 0.173	9,289,162	3.02	5,679,448
0.174 – 0.190	4,070,840	1.99	3,309,429
\$ 0.050 – 0.190	20,101,670	2.23	15,230,545

(d) Stock-based compensation and contributed surplus

The weighted average fair value of stock options granted was \$0.033 (2007 - \$0.094) per share during year ended December 31, 2008. The following table sets out the assumptions used in applying the Black-Scholes model:

	2008	2007
Risk free interest rate – average	3%	4%
Expected life (in years)	5	5
Expected volatility	80%	62%

In 2008, a net of \$74,445 (2007 - \$789,087) of stock-based compensation was charged to the Statement of Operations.



11. Share capital (continued):

<i>Contributed surplus</i>	2008	2007
Balance beginning of year	\$ 3,592,382	\$ 3,039,043
Stock-based compensation	285,549	892,003
Options forfeited	(211,104)	(102,916)
Transfer to share capital:		
On redemption of convertible debentures	-	(68,056)
On exercise of options	-	(167,692)
Balance end of year	\$ 3,666,827	\$ 3,592,382

12. Per share data:

The weighted average number of common shares issued and outstanding for the year ended December 31, 2008 was 406,240,640 (2007 – 403,117,725). No adjustments were required to the weighted average number of common shares in computing diluted per share amounts for the year ended December 31, 2008 and 2007 as the Company was in a loss position for these periods.

13. Related party transactions:

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

- During the year ended December 31, 2008, the Company paid or accrued management fees of \$574,093 (2007 – \$511,338) to a corporation owned by the President of the Company for the services of the President, Investor Relations, and support staff. At December 31, 2008, the Company owed a corporation owned by the President \$66,406 (2007 – \$129,206) relating to advances made for working capital purposes and unpaid management fees.
- As at December 31, 2008, the Company had demand promissory notes totaling \$1,069,778 (2007 – \$1,699,000) and US\$750,000 (2007 – US\$700,000) to corporations owned by the President of the Company. The demand promissory notes bear interest at 12% and 14.12% per annum and have no fixed terms of repayment. Including accrued interest, the total amount in promissory notes outstanding at December 31, 2008 was \$1,998,659. Subsequent to the period, the Company successfully retired \$318,440 and US\$223,252 (\$273,394) through a private placement of common shares (note 11b).
- During the year, the Company paid \$24,750 and accrued \$142,750 (2007 – paid \$36,000 and accrued \$111,750) in director fees.

14. Changes in non-cash working capital:

	2008	2007
Accounts receivable	\$ (238,919)	\$ 525,774
Inventories	491,445	(922,064)
Prepaid expenses	(48,897)	45,063
Assets held for sale	474,573	378,855
Trade accounts payables and accrued liabilities	(7,186,106)	7,221,910
Liabilities related to assets held for sale	(477,281)	98,875
	\$ (6,985,185)	\$ 7,348,413
Investing	(910,962)	2,544,209
Operations	(6,071,515)	4,326,474
Discontinued operations	(2,708)	477,730



15. Segmented information:

The Company has four operating units: mining activities in the Philippines, a drilling services division, exploration in the Philippines, and corporate offices in Canada and in the Philippines.

	Canatuan Mine	Drilling	Exploration	Corporate	Total
2008					
Sales	\$ 5,953,418	\$ 1,071	\$ -	\$ -	\$ 5,954,489
Interest income	15,284	166	2,762	63	18,275
	5,968,702	1,237	2,762	63	5,972,764
Operating expenses	(6,113,017)	(314,129)	-	(4,364,821)	(10,791,967)
Exploration costs	-	-	(1,580,243)	-	(1,580,243)
	(144,315)	(312,892)	(1,577,481)	(4,364,758)	(6,399,446)
Amortization, accretion, and impairment	(1,973,362)	(266,477)	-	(40,829)	(2,280,668)
	(2,117,677)	(579,369)	(1,577,481)	(4,405,587)	(8,680,114)
Gain (loss) on sale of property	(16,664)	737,773	-	1,652,310	2,373,419
Interest on debt	-	-	-	(1,832,224)	(1,832,224)
Foreign exchange loss	-	-	-	(4,478,211)	(4,478,211)
Net income (loss), continuing operations	(2,134,341)	158,404	(1,577,481)	(9,063,712)	(12,617,130)
Net loss, discontinued operations	-	(26,620)	(56,743)	(13,786)	(97,149)
Net income (loss)	\$ (2,134,341)	\$ 131,784	\$ (1,634,224)	\$ (9,077,498)	\$ (12,714,279)
Assets	37,285,606	1,396,277	-	992,136	39,674,019
Capital expenditures	14,716,617	-	-	22,075	14,738,692

	Canatuan Mine	Drilling	Exploration	Corporate	Total
2007					
Sales	\$ 34,070,391	\$ 263,118	\$ -	\$ 14,604	\$ 34,348,113
Interest income	6,338	130	-	2,118	8,586
	34,076,729	263,248	-	16,722	34,356,699
Operating expenses	(25,231,614)	(1,490,330)	-	(6,184,816)	(32,906,760)
Exploration costs	-	-	(3,069,042)	-	(3,069,042)
	8,845,115	(1,227,082)	(3,069,042)	(6,168,094)	(1,619,103)
Amortization, accretion, and impairment	(7,251,581)	(413,931)	-	(44,680)	(7,710,192)
	1,593,534	(1,641,013)	(3,069,042)	(6,212,774)	(9,329,295)
Gain on sale of property	-	-	-	276,449	276,449
Interest on debt	-	-	-	(74,926)	(74,926)
Foreign exchange gain	-	-	-	(174,271)	(174,271)
Net income (loss), continuing operations	1,593,534	(1,641,013)	(3,069,042)	(6,185,522)	(9,302,043)
Net loss, discontinued operations	-	(341,056)	(688,916)	(707,127)	(1,737,099)
Net income (loss)	\$ 1,593,534	\$ (1,982,069)	\$ (3,757,958)	\$ (6,892,649)	\$ (11,039,142)
Assets	20,304,535	2,220,808	6,485	858,815	23,390,643
Capital expenditures	9,859,069	102,537	48,276	55,731	10,065,613



15. Segmented information (continued):

Geographic information:

	2008		2007	
	Revenues	Property and equipment	Revenues	Property and equipment
Philippines	\$ 5,970,002	\$ 32,753,228	\$ 34,340,038	\$ 17,369,262
China	-	-	543,785	448,134
Canada	2,762	126,647	16,597	166,246
Discontinued operations	-	-	(543,721)	(288,100)
	\$ 5,972,764	\$ 32,879,875	\$ 34,356,699	\$ 17,695,542

In 2007, the revenues and property and equipment in discontinued operations are all located in China.

There is only one customer in the mining division contributing to 100% of the mining revenues of \$5,953,418 in 2008 (2007 – \$34,070,391). There were no drilling revenues in 2008 (2007 – revenues from four customers represented 73.4% of drilling revenues).

16. Commitments:

(a) Balabag Property – Philippines

The Company entered into the Balabag agreement in April 2005 with Zamboanga Minerals Corporation and in February 2008, the Company exercised the option to acquire the rights and obligations of the Balabag property. In February 2008, the Company paid US\$50,000 in cash and in February 2009 paid US\$300,000 (\$367,380) in common shares (note 11b). The agreement includes a net smelter return royalty of 2.5%.

(b) Corporate – Canada

The Company rents its office premises on a long-term lease. At December 31, 2008, the minimum rent payments amount to approximately \$92,132 for 2009 to 2010 (2007 – \$179,704). Certain recoveries are made under short-term sub-leasing arrangements.

17. Contingencies:

In March 2008, the Company was named in a proceeding alleging impropriety in relation to the Company's historical share option granting practices and misrepresentations in prior financial statements that were restated in 2007. The Company's Board of Directors appointed a Special Committee and engaged independent legal counsel to review the share option related allegations set out in the claim. The Company's insurer has accepted the claim and has been covering the costs required to defend the Company, subsequent to a retention amount that was accrued in 2007 and paid in 2008. The parties have reached an agreement in principle to settle the proceeding and are working to formalize the terms of settlement, which would be subject to court approval. The Company anticipates finalizing the settlement in the second quarter of 2009.



18. Financial instruments:

(a) Analysis of financial assets and financial liabilities

The tables below set out the Company's classification for each of its financial assets and liabilities at December 31, 2008.

	Financial assets held for trading	Loans and receivables	Other financial Liabilities	Total carrying value
Cash and cash equivalents	\$ 2,754,102	\$ -	\$ -	\$ 2,754,102
Restricted cash	-	367,380	-	367,380
Accounts receivable	-	931,328	-	931,328
Advances to suppliers	-	100,271	-	100,271
Accounts payable, accrued liabilities, and long term payable	-	-	(7,690,065)	(7,690,065)
Loan payable	-	-	(32,505,444)	(32,505,444)
Due to related parties	-	-	(2,381,083)	(2,381,083)
	\$ 2,754,102	\$ 1,398,979	\$ (42,576,592)	\$ (38,423,511)

(b) Fair values of financial assets and financial liabilities

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalents, accounts receivable, advances to suppliers, restricted cash, accounts payable and accrued liabilities, current loan payable, and due to related parties approximate their fair value at December 31, 2008 and 2007 due to their short term nature. The Company's long term payable, non-current loan payable, and non-current due to related parties also approximate their fair value at December 31, 2008 as they were settled in 2009.

(c) Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange 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), in the Republic of the Philippines (Peso), and in the People's Republic of China (Renminbi). The Company sells its mineral deposits at prevailing market prices in the US dollar currency. In addition, the company borrows money in the US dollar currency. Upon receipt, the Company converts these funds into the functional currencies of individual entities to finance operational and administrative expenses. There are no forward sales, and the Company does not engage in currency hedging activities.

The Company publishes its consolidated financial statements in the Canadian dollar and as a result, it is also subject to foreign currency exchange translation risk in respect of the results and underlying net assets of its foreign operations. For the year ended December 31, 2008, the pro forma impact on net loss from a 5% movement in the Canadian dollar exchange with the Philippine peso would be \$483,495.



18. Financial instruments (continued):

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

	Average rate		Spot rate	
	2008	2007	2008	2007
US Dollar	1.0660	1.0748	1.2246	0.9881
Philippine Peso	0.0240	0.0233	0.0256	0.0237
Chinese Renminbi	0.1536	0.1412	0.1795	0.1353

(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.

(iii) Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are subsequently independent of changes in market interest rates. The Company has exposure to fair value interest rate risk since its current bridge financing facility was refinanced into a five-year term loan subsequent to the period.

(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.

As at December 31, 2008, the Company has a \$8.9 million working capital deficiency. The Company intends to manage its obligations on a gradual settlement basis. The Company initiated negotiations with its suppliers for the extension of credit terms, among others, as part of its debt management strategies.

Based upon the Company's current financial condition, delay in obtaining additional financing for the Canatuan sulphide plant, reliance upon continued financial support from creditors, and variable commodity prices, the Company has a significant liquidity risk.

As at December 31, 2008, the Company has a loan payable and loans from related parties at fixed interest rates.

	Principal outstanding at December 31, 2008	Fixed interest rate	Interest during the year ended December 31, 2008	Maturity date
Loan payable A ¹	31,247,227	14%	2,082,186	February 6, 2009
Current loan payable B	1,069,393	8.75% to 9.25%	17,426	March to April 2009
Related party loan A	1,069,778	12%	144,309	Demand
Related party loan B	918,450	14.12%	115,377	Demand

¹ On February 6, 2009, the bridge financing facility was refinanced into a five-year term loan, maturing January 20, 2014. The term loan bears interest at the rate of 10% per year calculated on the original principal balance, irrespective of the actual outstanding balance of the loan. The terms of the loan are considered market terms.



18. Financial instruments (continued):

(v) Credit risk

The Company does not have a significant concentration of credit risk on its outstanding receivables as there is a ready market for mineral deposits. The Company maintains its cash and investments in accounts from highly reputable banks, which are approved by the Board of Directors. The Company currently does not have a policy to mitigate credit risk.

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, issuance of new debt to replace existing debt with different characteristics, and sale of non-core assets to reduce debt.

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, long term payable, current and non-current loan payable, and due to related parties. Equity comprises all components of equity other than amounts in accumulated other comprehensive income. Assets are defined as cash and cash equivalents, accounts receivable, advances to suppliers, inventories, restricted cash, and property and equipment.

	2008		2007	
Debt	\$	42,576,592	\$	17,158,028
Equity		(6,299,950)		6,339,884
Assets	\$	39,406,759	\$	22,407,526
Debt-to-equity		(6.76)		2.71
Debt-to-assets		1.08		0.77



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