



## **TVI Pacific Inc.**

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

**For the Years Ended December 31, 2007 and 2006**



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*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, 2007 and 2006. All numbers in this discussion and analysis are expressed in Canadian dollars unless otherwise indicated. Additional information is available on TVI's website at [www.tvipacific.com](http://www.tvipacific.com) or on SEDAR's website at [www.sedar.com](http://www.sedar.com). Information in this MD&A is as of March 27, 2008.*

## **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" and similar expressions. In particular, this MD&A includes forward-looking information respecting: (i) anticipated production levels for gold and silver at Canatuan; (ii) anticipated resumption of processing of high-grade ore; (iii) anticipated declines in ore grades and production volumes at Canatuan; (iv) estimated remaining mineral reserves at Canatuan; (v) estimated capacity for tailing disposal at Canatuan; (vi) planned cost reduction initiatives; (vii) anticipated timing of construction, development and production activities related to the Canatuan sulphide project (viii) expectations regarding financing for the sulphide project at Canatuan; (ix) planned sales of non-core assets including the contract drilling business assets outside the Philippines and the Rapu Rapu royalty; (x) future exploration and development activities at Balabag, Tamarok, Tapisa and the Company's other existing properties in the Philippines; (xi) potential opportunities to evaluate and acquire new properties to expand the Company's land position in the Philippines; and (xii) potential royalty payments from Lafayette's Rapu Rapu mine.

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 provided 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 obtained from third party sources 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, and changes in exploration plans or budgets. 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 anticipated production levels for gold and silver at Canatuan is based upon production levels, available information regarding the gossan mineral reserves, the anticipated effects of current initiatives to increase mill throughput, resumption of processing of higher grade ore and availability of tailings capacity. Forward-looking information respecting expected declines in ore grades and production volumes related to the remaining gossan mineral reserves at Canatuan is based upon independent third-party reports as to the nature and extent of the gossan mineral reserves at Canatuan, the results of mining operations at Canatuan to date, and management's internal estimates, mine plans and other projections. Forward-looking information respecting available tailings capacity at Canatuan is based upon expected future production from the Canatuan Mine and independent third-party engineering advice respecting the capacity of newly constructed containment facilities at Canatuan. Forward-looking statements regarding cost reduction initiatives are based on management's cost targets and the reductions implemented to date. Forward-looking information respecting the anticipated timing of development and production from the sulphide zone underlying the gossan reserves at Canatuan is based upon the status of negotiations concerning financing of the sulphide project, the status of the



Company's program to source equipment for the expansion of the Canatuan mine, progress made to date in the construction of the sulphide plant at Canatuan, management's experiences with the construction of the gossan processing facility at Canatuan, and mining plans, capital budgets and other projections prepared by the Company. Forward looking information regarding the availability and timing for financing for the sulphide project is based upon management expectations and the status of negotiations. Forward-looking statements regarding the potential sales of non-core assets are based on the expectations of management and expressions of interest received to date. Forward-looking information relating to the anticipated exploration and development 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 information statements respecting the evaluation and acquisition of new properties in the Philippines is based on prior exploration activities, discussions and due diligence to date. Forward-looking statements regarding Lafayette Mining's Rapu Rapu project are based on the publicly released documents of Lafayette Mining Limited, which are subject to change.

Where applicable, forward-looking information is based upon the Company's current business strategy, budgets, mine plans and projections, all of which are subject to change. 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.

## **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 producing assets are located in the Philippines, including the Canatuan Mine, which currently produces gold and silver doré, and a royalty interest in the Rapu Rapu Mine. In addition to these producing assets, TVI holds a diverse portfolio of properties and land positions in the Philippines, including the Balabag gold project, which the Company believes have significant near-term and long-term development potential. TVI also owns and operates a contract drilling business, which provides exploration drilling services to the Company's exploration division and to third parties in the Philippines.

TVI's strategy is to significantly 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 currently reinvests cash flows generated by the Canatuan Mine to finance the exploration and development of its diverse portfolio of mining properties and land positions, including the Canatuan sulphide project and the Balabag exploration project. Although the Company secured initial financing for the Canatuan Sulphide project in March 2008, the Company is currently seeking further financing for the project. Subject to the availability of continued financing, TVI intends to start full-scale development of the Canatuan sulphide project from which production of copper and zinc concentrates is expected to start in the fourth quarter of 2008. Pending additional financing, TVI also plans 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 as early as 2010. In addition to the Canatuan sulphide project and the Balabag project, TVI would like to explore on other land positions in the Canatuan area as well as other parts of the Philippines.

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. The Company is currently seeking expressions of interest to sell any or all of its contract drilling business assets located in the Philippines and in Kyrgyzstan.

## **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 currently produces gold and silver doré from gossan ore that is mined using open-pit methods and processed through a conventional carbon-in-leach / Merrill Crowe circuit. The Company expects that the gossan mineral reserves will be depleted by April 2008.

In early 2007, TVI commenced construction and development of the Canatuan sulphide project. The sulphide project includes construction of a separate plant to process ore from a massive copper-zinc bearing sulphide zone below the gossan zone that is currently being mined. In addition, the project includes building a separate tailings dam for its tailing deposits. During 2006, TVI received a feasibility study on the Canatuan sulphide deposit prepared by Norwest Corporation and also filed a NI 43-101 technical report. TVI is continuing with efforts to arrange financing for the Canatuan sulphide project.

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 either the current gossan mill or the sulphide mill to be 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*

	<b>2007</b>	<b>2006</b>
Mill throughput (dry metric tonnes):		
Total ore processed	740,099	591,180
Average daily throughput	2,028	1,620
Feed grade (grams per tonne):		
Gold (Au)	1.60	2.72
Silver (Ag)	56.29	51.78
Production volume (ounces):		
Gold (Au)	33,078	45,210
Silver (Ag)	653,278	608,507
Gold equivalent ounces (AuEqOz)	45,905	56,880
Recoveries:		
Gold (Au)	87.12%	87.49%
Silver (Ag)	48.77%	61.82%
Average price (\$/ounce):		
Gold (Au)	737.41	687.00
Silver (Ag)	14.58	13.12

During 2007, the Company increased its mill throughput by 25% in an attempt to recover lost product as a result of decreasing ore grades for gold and silver. Unfortunately, in 2007, the Company experienced decreasing recoveries, particularly for silver, decreasing metal grades, complex characteristics of the ore body being mined, adverse weather conditions, and mechanical breakdown. However, the Company reduced the cut-off grade and increased throughput due to the uptrend in prevailing prices of precious metals.

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Despite significantly lower gold metal grades during the first half of 2007 in comparison to the same period in 2006, the Company experienced higher production.

	January – June 2007	January – June 2006
Gold equivalent ounces (AuEqOz)	28,745	27,278
Average feed grade (grams per tonne):		
Gold	1.88	3.25
Silver	71.80	66.24
Recoveries:		
Gold	89.35%	85.34%
Silver	54.77%	56.89%
Average daily throughput (dry metric tonnes)	2,000	1,348

For 34 days during the third quarter of 2007, one of the Company's two ball mills was shutdown for repairs and maintenance. In addition, unusually heavy precipitation adversely affected haul roads and pit bottoms, particularly in areas where higher grade ore is mined. As a result, most of the mill feed during the third quarter was taken from lower grade stockpiles, which are ordinarily blended with higher grade ores from active pits. The result was a significant reduction in the mill throughput and production during the third quarter.

In the latter half of the year, the Company began to mill more complex ore which led to lower recoveries and metal production. The chalcocite and sulphide content of the gossan ore increased as mining operations approached the massive sulphide zone underlying the gossan ore. The Company increased reagent usage and blended different ore types to improve metal recoveries. These changes increased operating costs.

Due to adverse external factors and despite an increase in the average daily throughput in the second half of 2007, the Company's production, ore grades, and recoveries were not as strong as the comparable period in the prior year.

	July – December 2007	July – December 2006
Gold equivalent ounces (AuEqOz)	17,160	29,602
Average feed grade (grams per tonne):		
Gold	1.33	2.34
Silver	41.44	41.63
Recoveries:		
Gold	84.10%	89.60%
Silver	38.84%	67.34%
Average daily throughput (dry metric tonnes)	2,055	1,887

For additional information on the Canatuan Mine, please refer to the National Instrument 43-101 ("NI 43-101") technical report prepared by Geostat Systems International Inc. ("Geostat"), which was filed with certain securities regulatory authorities in Canada on August 21, 2006 and is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Geostat report assesses the gossan mineral reserves and resources at the Canatuan deposit.

#### *Sulphide Project*

At the Canatuan Mine, TVI plans to complete engineering, development and construction of a copper-zinc flotation plant to process ore from a massive sulphide deposit located beneath the current gossan mine. In March 2008, the Company signed an Omnibus Loan Agreement with an arms length party in order to obtain short-term financing which will be used to finance capital expenditures and working capital requirements for the Canatuan sulphide project. TVI is targeting to have the sulphide plant in operation by the start of the fourth quarter of 2008. Based on long-term metal price forecasts, TVI estimates that the sulphide operations will generate net cash flow for up to six years, the bulk of which will be realized during the initial three years of the mine's projected life.



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### *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 a 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. On February 8, 2008, the Pasig City Regional Trial Court issued a Stay Order on all claims against the Lafayette Group and set the initial hearing for the petition in April 2008. On March 19, 2008, the Company filed a Notice of Claim against the Lafayette Group in the amount of US\$3.9 million for unpaid NSR.

### **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. 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 and the Kyrgyz Republic. In the fourth quarter of 2007, the Company made the decision to focus on its core business activities at Canatuan and its exploration tenements in the Philippines and began to actively market the sale of its drilling operations. While the Company continues to search for prospective drilling projects, it is also considered exploring opportunities to sell or relocate drilling operations in the Philippines and the Kyrgyz Republic.

### **EXPLORATION**

TVI's exploration properties include its existing land positions in the Philippines. In 2008, TVI plans to resume its exploration program in the Philippines, focusing on its Balabag property and on lands near the Canatuan Mine. TVI is currently evaluating several advanced projects in the Philippines that may result in future joint development and operations on these projects.

#### *Balabag*

The Balabag project is one of TVI's highest exploration priorities. In February 2008, the Company exercised the option it holds on the Balabag property under an agreement with Zamboanga Minerals Corporation. Under the option, the Company acquired the rights and obligations of the Balabag property which covers an area of approximately 48 km<sup>2</sup>. The property is situated approximately 75 kilometres east-northeast of the Canatuan Mine and immediately adjacent to part of the extensive 1,257 km<sup>2</sup> 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. Conceptually, the Balabag property may include a stand-alone operation of open pit and underground mines with the potential to produce more than 50,000 gold equivalent ounces annually. Based on exploration drilling to date, the deposit appears to be open at depth and along strike. TVI is planning to proceed with further infill drilling and exploration work to increase confidence in the mineral resource and to evaluate the potential to find more deposits on the Balabag property.

In January 2007, TVI completed an exploration drilling program consisting of 58 drill holes totalling approximately 7,000 metres, spaced at 50-metre intervals. The exploration program identified a potential mineral deposit consisting of a series of gold-bearing epithermal vein structures situated near surface and of reasonable grade and potential tonnage to warrant systematic valuation work in 2007. On August 10, 2007, TVI filed a 43-101 technical report for the mineral resources at Balabag, which was prepared by an independent third party. According to the technical report, the Balabag property contains indicated resources of 1.37 million tonnes of ore, averaging 2.9 grams per tonne of gold and 84.3 grams per tonne of silver, and 204,000 ounces of metal on a gold equivalent basis. In addition, the inferred resources at



Balabag total 1.964 million tonnes of ore, averaging 2.6 grams per tonne of gold and 55.2 grams per tonne of silver, and 234,000 ounces of metal on a gold equivalent basis. TVI cautions readers that these estimates are very preliminary in nature and simply indicate the potential that a sizeable mineral target exists. At this time, there is no assurance that the mineralization at Balabag will support a commercial mining operation.

Based on these encouraging exploration results and preliminary in-house estimates of the potential mineral resource at Balabag, TVI initiated an infill drilling campaign, spaced at 25-metre intervals in the prior year. Additional infill and exploration drilling will be required, subject to raising additional financing, to further substantiate and expand the current mineral resources at Balabag. TVI commissioned an independent mining consultant to conduct a scoping study that the Company expects to release in 2008. TVI plans to finish the infill drilling campaign after the Balabag scoping study has been completed and financing required for the campaign has been arranged.

#### *Tamarok - Tapisa*

The Tamarok copper gold project and the Tapisa exploration project are located 60 kilometres north-northeast of TVI's Balabag project. TVI's applications cover almost all of the targets identified by the prior exploration program, numbering at least 20 epithermal gold, massive sulphide and porphyry copper-gold prospects. Recent TVI exploration efforts support historical findings and have identified additional highly prospective copper and gold occurrences.

TVI is currently negotiating a memorandum of agreement with the indigenous communities in the greater Tamarok-Tapisa area, under the Free Prior Informed Consent process, after which the Company may apply to Philippine authorities for permits required to continue exploration. TVI has obtained favourable endorsement and acceptance from the majority of the local indigenous people. After completing the 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. Two major mining companies have expressed interest in possible joint venture arrangements regarding these properties

#### *China*

On February 29, 2008, as a part of the sale of HPGEI, the Company sold its licences, exploration tenements and drilling operations in the Republic of China for proceeds of US\$1,980,000.

### **NON-GAAP MEASURES**

Cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital. Cash flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that cash flow 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. Cash flow from operations may not be comparable to similar measures used by other companies.

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**SELECTED ANNUAL INFORMATION**

	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>		
Canatuan	\$ 34,076,729	\$ 39,385,503
Drilling	263,248	1,588,764
Exploration	-	-
Corporate	16,722	3,393
	<b>34,356,699</b>	<b>40,977,660</b>
<b>Net income (loss) from continuing operations:</b>		
Canatuan	1,593,534	10,908,919
Drilling	(1,641,013)	(459,445)
Exploration	(3,069,042)	(2,902,216)
Corporate	(6,185,522)	(4,823,708)
	<b>(9,302,043)</b>	<b>2,723,550</b>
Net income (loss) per share – basic and diluted	(0.023)	0.007
<b>Net income (loss) from discontinued operations:</b>		
Canatuan	-	-
Drilling	(341,056)	1,131,285
Exploration	(688,916)	(1,157,071)
Corporate	(707,127)	(891,440)
	<b>(1,737,099)</b>	<b>(917,226)</b>
Net income (loss) per share – basic and diluted	(0.004)	(0.002)
<b>Net income (loss):</b>		
Canatuan	1,593,534	10,908,919
Drilling	(1,982,069)	671,840
Exploration	(3,757,958)	(4,059,287)
Corporate	(6,892,649)	(5,715,148)
	<b>(11,039,142)</b>	<b>1,806,324</b>
Net income (loss) per share – basic and diluted	(0.027)	0.005
<b>Total assets</b>	<b>23,390,643</b>	<b>20,418,639</b>
<b>Total convertible debentures</b>	<b>\$ -</b>	<b>\$ 1,469,612</b>

**CONSOLIDATED RESULTS OF OPERATIONS**

During the year ended December 31, 2007, TVI incurred a consolidated net loss of \$11.0 million. In the previous year, the Company had net income of about \$1.8 million. The large loss in the year is due to a decrease of about \$9.3 million in the Canatuan Mine segment – total revenues decreased \$5.3 million and expenses increased about \$4.0 million in the year. In addition, late in the year, the Company prepared its China operations and assets for sale and did not concentrate its efforts on drilling contracts in China. Operations in China have been classified as discontinued operations.

Revenues from the Canatuan Mine decreased about \$5.3 million compared with the prior year. The Canatuan Mine's production was primarily affected by the expected declining ore grades and complexity of ore processed, in addition to major equipment breakdown and increased precipitation levels. Drilling revenues have decreased about \$1.3 million compared to 2006 primarily due to the lack of third party drilling contracts during the first six months of 2007 and a shift in the Company's strategic focus in the latter half of 2007.

Total revenue in the fourth quarter of 2007 decreased about 34% in comparison to the revenues from the third quarter of 2007. In comparison with the comparable period in the prior year, revenues decreased about 33%. The main contributory factor is the downtrend in metal production of the Canatuan gossan

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operations. Although the Company increased its average daily throughput in the fourth quarter, in comparison with prior periods, it was not able to produce a comparable amount of product due to declining recovery rates. These were expected results as the gossan project is nearly depleted.

	Q4 2007	Q3 2007	Q4 2006
Gold equivalent ounces (AuEqOz)	6,873	10,287	13,904
Average feed grade (grams per tonne):			
Gold	1.10	1.58	2.04
Silver	46.21	36.18	40.52
Recoveries:			
Gold	78.32%	88.53%	89.76%
Silver	26.12%	56.79%	65.60%
Average daily throughput (dry metric tonnes)	2,158	1,953	1,976

In addition, during the fourth quarter of 2006, there were three drilling contracts in progress; however, during the fourth quarter of 2007, there were no drilling contracts. The Company made the decision during the fourth quarter of 2007 to sell portions of its drilling assets and prepare these assets for sale, rather than using them in drilling operations.

Mining, milling, drilling, and selling expenses was about \$24.5 million in 2007 which increased about \$2.8 million or 13% from the prior year. The increase in expenses reflects higher costs at the Canatuan Mine due to higher mill throughput volumes and higher reagent costs.

Amortization and accretion expenses increased by \$1.0 million related primarily to a \$1.3 million impairment write-down in respect of the gossan dam and deferred development costs related to the gossan operations. The amortization expense in the fourth quarter of 2007, in comparison to the third quarter of 2007, decreased about \$1.2 million due to the \$1.1 million impairment to the assets related to the gossan operations in the third quarter. In comparison with the fourth quarter of 2006, the amortization expense increased about \$0.2 million due to the further impairment of the gossan assets recognized in the fourth quarter of 2007.

Exploration expenses totalled \$2.7 million in 2007 compared with \$2.9 million in 2006. Classified within discontinued operations, expenses incurred for exploration in China were approximately \$0.7 million in 2007 and \$1.2 million in 2006. The Company refocused its efforts on the Canatuan Mine area during the year, rather than on further greenfield exploration. Furthermore, during the last quarter of 2007, the Company was preparing to sell its assets in China rather than for exploration activities.

Administrative and general expenses increased approximately \$2.1 million due to increases in professional fees of \$0.3 million, consultant fees of \$0.6 million, and corporate security of \$0.3 million, and administrative staff wages and benefits of \$0.4 million. In addition, there were approximately \$0.5 million in administrative start-up costs required in Kyrgyzstan during the year.

Although on a total consolidated basis expenses generally increased in comparison to the 2006 fiscal year, total expenses, disregarding amortization expenses, decreased by about \$0.5 million from the third quarter of 2007 relative to the expenses incurred in the fourth quarter of 2007. Expenses also decreased by about \$1.3 million from the fourth quarter of 2007 in comparison with the fourth quarter in 2006. The decrease in the fourth quarter of 2007 is due to the reduction in expenses required in the drilling operations as there were no drilling contracts in progress at the end of fiscal 2007. Operational expenses incurred in EDCO were about \$0.7 million in Q4 2006, about \$0.4 million in Q3 2007, and nil in Q4 2007. In addition, during the fourth quarter, the Company rationalized the management structure of the drilling division. Significant changes were implemented in Q4 2007, which resulted in reduced labour overhead costs in the operations of the drilling division. During the third quarter of 2007, the Company initiated ways to decrease general costs and reductions in expenses were realized commencing in Q4 2007.



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## CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

There was a decrease in cash from operating activities before working capital changes and discontinued operations of about \$0.5 million, compared with a surplus of \$10.3 million in 2006. The decrease was primarily attributable to higher operating expenses at the Canatuan Mine, lower production volumes at the Canatuan Mine, and lack of third party drilling contracts.

During 2007, TVI financed a significant part of capital expenditures for the Canatuan sulphide project from operating cash flow and from deferral of payment to vendors, thus increasing accounts payable and accrued liabilities by about \$7.5 million.

During the year, TVI raised a total of about \$4.0 million in financing. The Company received \$2.7 million in demand loans from corporations owned by the President of the Company (2006 – \$0.5 million), \$0.3 million from issuance of common shares through exercise of stock options and warrants (2006 - \$0.9 million), and about \$1.0 million in loans from an arms length party.

Due to the development and construction activity for the Canatuan sulphide project, TVI has increased its capital expenditure program compared with the preceding year. Capital expenditures for the year were about \$10.1 million, compared with spending of \$9.4 million in 2006. About \$7.6 million was spent on pre-development work on the Canatuan sulphide project including plant, equipment, and dam construction. An additional \$2.3 million was required on the existing plant and dam which was required for the gossan project. In addition, the Company spent approximately \$0.2 million in drilling and other operations assets during the year.

Total assets increased to \$23.4 million compared with \$20.4 million as at December 31, 2006. Most of the increase in total assets is related to TVI's ongoing capital expenditure program, particularly for the Canatuan sulphide project. The net book value of property, equipment, and deferred costs increased by \$3.5 million to \$17.7 million. In 2007, TVI recorded \$7.7 million in amortization, accretion, and write-down of impaired assets related to the Canatuan gossan project.

### Going Concern

As a result of capital spending on the Canatuan sulphide plant and other capital projects, operating losses in the drilling division, and lower production volumes at the Canatuan Mine, the Company's working capital deficiency increased from \$0.01 million as at December 31, 2006 to \$12.5 million as at December 31, 2007. This working capital deficiency includes demand loans from corporations owned by the President of the Company of \$2.8 million and advances from an arms length party of \$1.0 million as at December 31, 2007.

The Company's ability to continue as a going concern and the recoverability of amounts recorded for property and equipment and deferred costs depends upon continued financial support from creditors and obtaining sufficient financing for the proposed Canatuan sulphide project and for working capital requirements, reestablishing the profitability of the Canatuan operations, and selling non-core assets. The Company is continuing with efforts to obtain further financing for the Canatuan sulphide project and has implemented initiatives to reduce ongoing operating costs and to monetize non-core assets. There is significant risk that the Company may not continue to be a going concern since there is no assurance that the Company will be successful in arranging financing of the sulphide project and working capital deficiency, selling non-core assets and other measures described above.

### Sulphide Project Financing

On December 27, 2007, the Company signed a memorandum of agreement with an arms length entity to obtain 42 million Philippine pesos (\$994,980) as bridge financing for the sulphide project. The advance is due in the third quarter of 2008 and accrues interest at 15% per annum.

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During 2007, the Company issued demand promissory notes totaling \$1,699,000 and 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 the end of the year was \$2,458,875.

In March 2008, the Company executed a loan facility with an arms length party for US\$15 million. The loan is repayable in September 2008 and accrues interest at 14% per annum compounded monthly. At the option of the Company the repayment term may be extended an additional six months in exchange for a 1% extension fee. In addition, as a part of the agreement, the arms length party will assist the Company in raising an additional \$5 million through a different creditor. The Company expects that the short-term loan will not be sufficient to complete the construction of the sulphide mine. The Company's ability to continue as a going concern is dependant upon continued financial support from creditors and obtaining further financing for the Sulphide Project. The mine is expected to begin production by the fourth quarter of 2008.

## OUTLOOK

TVI's results of operations continue to benefit from robust demand for precious metals, as reflected in the continuing strength of gold and silver prices. Given the outlook for continued high prices for precious metals and base metals, TVI believes that there is significant value in the Canatuan sulphide project and the Balabag project. TVI temporarily suspended development activity on the Canatuan sulphide project and exploration activity at Balabag; however, the Company obtained financing in Q1 2008 and expects to resume activities in Q2 2008. In the future TVI intends to fund the Balabag and sulphide projects, as well as other exploration activities, from cash flow generated from the Canatuan Mine, future debt financing of the sulphide project, future equity offerings, and the planned sales of non-core assets. TVI plans to continue exploration activities on its existing properties and to evaluate opportunities to acquire new properties to further expand the Company's portfolio of properties in the Philippines. TVI is currently awaiting approvals on certain exploration applications and has temporarily reduced exploration activity pending receipt of such approvals and availability of funding.

## 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, 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)
December 31, 2006	10,887	(705)	(0.0018)	(0.0018)
September 30, 2006	11,296	488	0.0013	0.0012
June 30, 2006	13,498	1,388	0.0037	0.0036
March 31, 2006	\$ 8,776	\$ 635	\$ 0.0017	\$ 0.0016

## NEW ACCOUNTING PRONOUNCEMENTS

### *Capital Disclosures and Financial Instruments – Disclosure and Presentation*

In December 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". Section 1535 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. 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. These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

#### *Inventories*

In June 2007, the CICA issued a new section 3031, Inventories, in March 2007, 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 standard is effective for fiscal years beginning on or after January 1, 2008 and will be implemented by the Company in the first quarter of 2008. The Company is currently assessing the implications of adopting the standard.

#### *Convergence with International Reporting Standards*

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken early 2008. 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 Philippines has already implemented convergence with International Reporting Standards as required under local statutory reporting purposes.

### **COMPARATIVE AMOUNTS**

Certain comparative amounts have been restated 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 expected return from the property. 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 the 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, consultants, 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.



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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 outstanding foreign exchange or commodity options, futures or forward contracts.

#### **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 2007, the Company had promissory notes totaling \$1.7 million and US\$0.7 million outstanding. During the twelve months ending December 31, 2007, Seajay Management Enterprises Ltd. ("Seajay") charged the Company \$511,338 for management, secretarial, and administration services. Seajay is a corporation owned by the President of the Company. At the end of the year, the Company owed Seajay \$129,206 for advances made for working capital purposes.

#### **CONTRACTUAL OBLIGATIONS**

The Company rents its office premises on long-term leases. The annual minimum rent payments amount to approximately \$179,704 for 2008 to 2010 (2006 - \$343,271). Certain recoveries are made under short-term sub-leasing arrangements.

#### **ADDITIONAL INFORMATION**

The Company's outstanding common shares as at March 27, 2008 were 406,240,640 as it was at December 31, 2007. The weighted average number of common shares issued and outstanding during the year were 403,117,725 (2006 – 383,627,553).

#### **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 CEO and CFO, 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 (except for the material weaknesses in internal controls over financial reporting noted below) 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.



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**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 of internal controls over financial reporting as of December 31, 2007 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.

During the year, the Company completed a comprehensive review of its consolidation procedures and redesigned its internal controls over financial reporting to reduce the risk of future 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 control over financial reporting provides a reasonable level of assurance they do not expect that the internal control 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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**Registrar and Transfer Agent:**

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600 - 530 8 Avenue SW  
Calgary, Alberta, Canada T2P 3S8  
Telephone: (403) 267-6800

**Share Listing:**

Toronto Stock Exchange Symbol: TVI

**Auditors:**

PricewaterhouseCoopers LLP  
3100, 111 – 5<sup>th</sup> Ave. SW  
Calgary, Alberta, Canada T2P 5L3



# **TVI Pacific Inc.**

## **Consolidated Financial Statements**

**For the Years Ended  
December 31, 2007 and 2006**

Auditors' Report

To the Shareholders of TVI Pacific Inc.

We have audited the consolidated balance sheets of TVI Pacific Inc. as at December 31, 2007 and 2006 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, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, Alberta

March 26, 2008

**TVI Pacific Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2007 and 2006**  
**(in Canadian dollars)**



	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,028,833	\$ 1,410,887
Accounts receivable	792,680	1,318,454
Inventories (note 4)	2,890,471	2,063,712
Prepaid expenses	218,363	263,426
Assets held for sale (note 6)	764,754	1,143,609
Investments	-	70,136
	<u>5,695,101</u>	<u>6,270,224</u>
Property and equipment and deferred costs (note 5)	17,695,542	14,148,415
	<u>\$ 23,390,643</u>	<u>\$ 20,418,639</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,411,165	\$ 5,888,678
Liabilities related to assets held for sale (note 6)	477,281	378,406
Current loan payable (note 7)	994,980	-
Current portion of asset retirement obligation (note 9)	594,236	-
Due to related parties (note 12)	2,751,883	14,029
	<u>18,229,545</u>	<u>6,281,113</u>
Convertible debentures (note 7)	-	1,469,612
Pension obligation (note 8)	424,534	160,062
Asset retirement obligation (note 9)	1,405,734	812,086
	<u>20,059,813</u>	<u>8,722,873</u>
Shareholders' equity:		
Share capital (note 11b)	21,017,205	18,966,531
Warrants (note 11d)	-	22,850
Contributed surplus (note 11e)	3,592,382	3,039,043
Deficit	(18,269,703)	(7,230,561)
Accumulated other comprehensive loss	(3,009,054)	(3,102,097)
	<u>3,330,830</u>	<u>11,695,766</u>
	<u>\$ 23,390,643</u>	<u>\$ 20,418,639</u>

Going concern (note 1)  
 Commitments (note 15)  
 Contingencies (note 16)  
 Subsequent events (notes 1, 6, 15, and 16)

See accompanying notes to 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, 2007 and 2006**  
(in Canadian dollars)



	<b>2007</b>	<b>2006</b>
Revenues:		
Sales	\$ 34,348,113	\$ 40,964,484
Interest	8,586	13,176
	<u>34,356,699</u>	<u>40,977,660</u>
Expenses:		
Mining, milling, drilling, and selling expenses	24,522,128	21,750,402
Foreign exchange loss	174,271	174,602
Amortization and accretion	7,710,192	6,727,685
Administrative and general costs	8,851,413	6,790,034
Exploration costs	2,677,187	2,935,815
Gain on sale of assets	(276,449)	(124,428)
	<u>43,658,742</u>	<u>38,254,110</u>
Net income (loss) from continuing operations	<u>(9,302,043)</u>	<u>2,723,550</u>
Loss from discontinued operations (note 6)	<u>(1,737,099)</u>	<u>(917,226)</u>
Net income (loss)	<u>(11,039,142)</u>	<u>1,806,324</u>
Other comprehensive income (loss):		
Change in fair value of investments	(57)	-
Foreign currency translation adjustment	93,043	897,960
	<u>92,986</u>	<u>897,960</u>
Comprehensive income (loss)	<u>\$ (10,946,156)</u>	<u>\$ 2,704,284</u>
Net income (loss) per share:		
Basic and diluted – continuing operations	\$ (0.023)	\$ 0.007
Basic and diluted – discontinued operations	(0.004)	(0.002)
Basic and diluted	(0.027)	0.005
Weighted average number of common shares:		
Basic and diluted (note 17)	<u>403,117,725</u>	<u>383,627,553</u>

See accompanying notes to consolidated financial statements.

**TVI Pacific Inc.**  
**Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss**  
**December 31, 2007 and 2006**  
**(in Canadian dollars)**



	<b>2007</b>	<b>2006</b>
Deficit, beginning of year	\$ (7,230,561)	\$ (9,036,885)
Net income (loss)	(11,039,142)	1,806,324
Deficit, end of year	\$ (18,269,703)	\$ (7,230,561)
Accumulated other comprehensive loss, beginning of year	\$ (3,102,097)	\$ (4,000,057)
Other comprehensive income	92,986	897,960
Adoption of financial instruments (note 3m)	57	-
Accumulated other comprehensive loss, end of year	\$ (3,009,054)	\$ (3,102,097)

See accompanying notes to consolidated financial statements.

**TVI Pacific Inc.**  
**Consolidated Statements of Cash Flows**  
**December 31, 2007 and 2006**  
**(in Canadian dollars)**



	<b>2007</b>	<b>2006</b>
Cash provided by (used in):		
Operating:		
Net income (loss) from continuing operations	\$ (9,302,043)	\$ 2,723,550
Items not involving cash:		
Amortization and accretion	7,710,192	6,727,685
Inventory obsolescence and write-offs	95,306	76,279
Accretion on convertible debentures	30,388	205,404
Stock based compensation	789,087	826,495
Unrealized foreign exchange loss	199,404	65,863
Bad debt provision	-	7,950
Reversal of tax interest and penalties	-	(250,383)
Gain on sale of equipment	(269,479)	(24,428)
Gain on sale of property	(6,970)	(100,000)
Pension obligation	264,472	100,892
	(489,643)	10,359,307
Change in non-cash working capital (note 13)	4,326,474	(747,573)
	3,836,831	9,611,734
Loss from discontinued operations	(1,737,099)	(917,226)
Change in non-cash working capital (note 13)	477,730	215,932
	(1,259,369)	(701,294)
Financing:		
Shares and warrants issued	292,076	899,653
Current loan payable	994,980	-
Received from related parties	2,737,854	453,247
	4,024,910	1,352,900
Investing:		
Expenditures on property and equipment and deferred costs	(10,065,613)	(9,351,765)
Proceeds on disposal of property and equipment	269,479	124,428
Proceeds on sale of investment	77,106	-
Realized foreign exchange in net investment	208,837	-
	(9,510,191)	(9,227,337)
Change in non-cash working capital (note 13)	2,544,209	(190,781)
	(6,965,982)	(9,418,118)
Effect of foreign exchange rates on cash	(18,444)	89,568
Increase (decrease) in cash	(382,054)	934,790
Cash and cash equivalents, beginning of year	1,410,887	476,097
Cash and cash equivalents, end of year	\$ 1,028,833	\$ 1,410,887
Supplemental cash flow information:		
Interest paid	\$ 84,706	\$ 232,677

See accompanying notes to consolidated financial statements.



**1. Going concern:**

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles 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 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.

As a result of capital spending on the Canatuan sulphide plant and other capital projects, operating losses in the drilling division, and deteriorating mine grades resulting in lower production volumes at the Canatuan Mine during the year, the Company's working capital deficiency increased from \$0.01 million as at December 31, 2006 to \$12.5 million as at December 31, 2007. The working capital deficiency includes advances from a related party of \$2.8 million. Accounts payable and accrued liabilities increased from \$5.9 million as at December 31, 2006 to \$13.4 million as at December 31, 2007, primarily due to capital expenditures made with the expectation that project financing for the Canatuan sulphide plant would be available during the fourth quarter of 2007.

The Company's ability to continue as a going concern and the recoverability of amounts recorded for property and equipment and deferred costs depends upon continued financial support from creditors and obtaining sufficient financing for the proposed Canatuan sulphide plant and for working capital requirements, reestablishing the profitability of the Canatuan operations, and selling non-core assets. The Company is continuing with efforts to obtain financing for the Canatuan sulphide plant and has implemented initiatives to reduce ongoing operating costs and to monetize non-core assets. The Company suspended further capital expenditures on the Canatuan sulphide plant until sufficient financing was available. The Company is evaluating alternatives to minimize the time between the depletion of the current gossan reserves and the start of production from the sulphide reserves. Based on the Company's financial condition as at December 31, 2007 and the delay in obtaining financing for the Canatuan sulphide plant, there is significant risk that the Company may not continue to be a going concern. In February 2008, the Company sold its China operations and assets for proceeds of US\$1,980,000 (note 6). In March 2008, the Company signed a loan agreement with an arms length party for a US\$15 million bridge financing facility. The facility is subject to a fixed arrangement fee of 1% and bears interest at the rate of 14% per annum compounded monthly, calculated from the date of the draw-down of funds. At the option of the Company, an additional \$5 million may be borrowed. The loan will be used to fund any working capital deficiencies and to fund capital investment to further develop the Canatuan sulphide plant. There is no assurance that the Company will be successful in arranging additional financing for the Canatuan sulphide plant and working capital deficiency, selling non-core assets, and other measures described above.

**2. Nature of operations:**

TVI is in the mineral exploration and development business in the Republic of the Philippines. The Company has operated a commercial gold and silver mine since 2005 and recently expanded the plant to increase throughput and improve recoveries.

Exploration Drilling Corporation, a wholly-owned subsidiary based in the Philippines, provides drilling services to third parties as well as TVI's operations.



### 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" TIAMUT International Limited ("TIAMUT"), Exploration Drilling Corporation ("EDCO"), Hunan Pacific Geological Exploration Inc. ("HPGEI") and TVI Mineral Processing Inc. ("TVI Processing")) as well as TVI Resource Development (Phils.) Ltd. ("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, gold and silver work in progress and finished goods (dore bars) 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 operating costs and some administrative costs are included in determining the cost. Stockpiled ore inventory includes the cost of extraction and transportation.

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards for measurement and disclosure requirements for inventories, which are applicable for fiscal years beginning on or after January 1, 2008. 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 is currently assessing the implications of adopting the standard.

#### (c) Mining claims and deferred 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. 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. Commercial production is deemed to have commenced on the first day of a calendar month following a 30 day period where the mine's mill facility has processed ore at a minimum of 75% of designed capacity and recoveries are within 75% of projections. If a property is abandoned, previously capitalized costs are charged to operations in the year of abandonment. The Company has not capitalized any interest relating to the start up of the Canatuan mine.



**3. Significant accounting policies (continued):**

**(d) Property and equipment and depreciation:**

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

	<b>Method</b>	<b>Rate</b>
Canatuan property:		
Property and equipment	Straight-line	10 - 50%
Drilling and other operations	Straight-line	10 - 50%

**(e) Impairment of long-lived assets:**

The Company evaluates the property, equipment and deferred costs 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 services, 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 long-term 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.



**3. Significant accounting policies (continued):**

**(h) Foreign currency translation:**

The Company's Philippine and Chinese affiliates, are accounted for as self-sustaining operations, therefore 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 foreign currency translation adjustment.

**(i) Revenue recognition:**

Revenues from commercial mineral operations are recorded when title passes on sale and delivery of gold and silver to the refiner. 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.

**(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.



### 3. Significant accounting policies (continued):

#### **(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. Such estimates are based on informed judgments made by management. Actual results could differ materially from those estimated.

#### **(o) Financial instruments, hedging relationship and other comprehensive income:**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated other than the cumulative translation adjustment.

##### *Comprehensive Income*

The new standards introduce comprehensive income, which consists of net income and other comprehensive income. The Company's financial statements now include a Statement of Comprehensive Income, which includes the components of 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. Accumulated other comprehensive income includes the foreign currency translation adjustment, which was previously presented as a separate category within shareholders' equity.

The Company has adopted the new accounting standard according to the transitional provisions.

##### *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 as a result of implementing the new standard.

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.

Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, long-term liabilities and long-term debt are designated as "other financial liabilities".

Investments are designated as "available for sale". Gains or losses arising from a change in the fair value are recognized directly in other comprehensive income. Accordingly, at January 1, 2007, investments increased in fair value by \$57. The adoption of the new standard had no effect on the opening retained earnings.



**3. Significant accounting policies (continued):**

The adoption of the financial instruments standard has been made in accordance with its transitional provisions.

In December 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". Section 1535 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. 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. These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.

**(p) Accounting changes:**

Effective January 1, 2007, the Company also adopted CICA Handbook Section 1506, "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Under the new standard, accounting changes should be 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.

**(q) Comparative figures:**

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

**4. Inventories:**

	2007	2006
Consumable drilling parts and supplies	\$ 881,672	\$ 664,674
Mineral processing supplies	1,323,447	852,684
Gold and Silver		
Work in progress and finished goods	411,325	475,089
Stockpiled ore	274,027	71,265
	\$ 2,890,471	\$ 2,063,712

**5. Property and equipment and deferred costs:**

	2007 Cost	2007 Accumulated amortization	2007 Net book value	2006 Net book value
Canautan property:				
Property and equipment	\$ 22,495,682	\$ 8,570,065	\$ 13,925,617	\$ 9,469,527
Deferred development	7,205,791	5,842,875	1,362,916	3,680,258
Drilling & other operations	6,294,899	3,887,890	2,407,009	998,630
	\$ 35,996,372	\$ 18,300,830	\$ 17,695,542	\$ 14,148,415

During the year, the Company wrote-off all fully amortized assets no longer in use.



**5. Property and equipment and deferred costs (continued):**

**(a) Canatuan property:**

In 1995, TVI Resource acquired from Benguet Corporation ("Benguet") a 100% interest in 486 hectares of the Canatuan property located near Siocon, Zamboanga del Norte in the Philippines subject to a 1% royalty.

In January 2005, the plant at Canatuan mine started commercial mining operations on the gossan mineral reserves. During 2007, TVI Resource suffered from decreasing ore grades, recovery rates, and production volumes. The Company expects that the gossan mineral reserves will be depleted by April 2008. As such, the Company recorded an impairment writedown of \$1.3 million in respect of assets used in the gossan operations at Canatuan.

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 current gossan mine.

**(b) Other properties:**

Through companies controlled by TVI Resource, the Company has filed a number of Mineral Production Sharing Agreements and Financial or Technical Assistance Agreement applications on lands with gold-producing potential in various provinces in the Philippines. In 2005, TVI Resource re-established its exploration program in the Philippines with the application for and acquisition of new properties as well as reviewing existing applications.

**(c) Sale of Canadian property:**

In May 2002, the Company sold a Canadian property which had no recorded carrying value to a company whose Secretary is a director of TVI Pacific Inc. The net consideration of \$350,000 was payable with \$50,000 on execution and \$50,000 annually. The annual installments would accelerate into quarterly installments if the purchaser receives a power sales contract for electric power developed on the property. In November 2006, the Company received its first quarterly installment of \$50,000. In March 2007 final payment of \$50,000 was received.

**6. Discontinued operations:**

In 2001, the Company began an exploration and survey program to identify and acquire precious metals properties and gold-rich based metal properties in China. During 2005 and 2006, the Company made several exploration licence applications to acquire property in China. In September 2007, the Company received one exploration license from the Ministry of Land and Resources. During 2007, the Company incurred \$626,119 (2006 – \$996,989) of exploration expenditures in China in connection with its evaluation and acquisition of these prospects.

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 China. On February 29, 2008, the Company sold 100% share ownership in HPGEI to an arms length party for proceeds of US\$1,980,000, of which US\$300,000 is held in escrow.



**6. Discontinued operations (continued):**

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

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 35,081	\$ 154,967
Accounts receivable	14,267	135,968
Inventory	414,763	287,569
Prepaid expenses	12,543	30,243
Property and equipment	288,100	534,862
	<u>764,754</u>	<u>1,143,609</u>
Accounts payable and accrued liabilities	\$ 477,281	\$ 378,406

Loss from discontinued operations include the following amounts:

	<b>2007</b>	<b>2006</b>
Revenues:		
Sales	\$ 543,690	\$ 3,478,207
Interest income	31	1,428
	<u>543,721</u>	<u>3,479,635</u>
Expenses:		
Mining, milling, drilling, and selling expenses	839,615	2,143,490
Foreign exchange loss	1,899	9,543
Amortization and accretion	242,468	203,432
Administrative and general costs	507,922	883,325
Exploration costs	688,916	1,157,071
	<u>2,280,820</u>	<u>4,396,861</u>
Loss from discontinued operations	\$ 1,737,099	\$ 917,226

**7. Loan instruments:**

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 (\$994,980) which accrues interest at 15% per annum and is due in the third quarter of 2008.

In February 2005, the Company issued convertible debentures in the amount of \$1,500,000 which included the conversion of a \$1,000,000 loan from a shareholder. The debentures were issued bearing interest of the greater of Royal Bank of Canada prime plus 8% per annum or 12% per annum. Each \$5,000 debenture was convertible by the holder into 50,000 common shares until February 24, 2007 and attached to each convertible debenture were 25,000 warrants which were exercisable at \$0.105 per share up to February 24, 2006 and \$0.12 per share up to February 24, 2007. All the convertible debentures were converted to 15,000,000 shares in February 2007.



**8. Pension obligation:**

	<b>2007</b>	<b>2006</b>
Present value of obligations	\$ 436,535	\$ 220,412
Fair value of plan assets	-	-
Present value of unfunded obligations	436,535	220,412
Unrecognized actuarial losses	(8,680)	(28,281)
Unrecognized past service cost	(3,321)	(32,069)
Pension obligation	\$ 424,534	\$ 160,062

The movement in the liability recognized in the balance sheet is as follows:

	<b>2007</b>	<b>2006</b>
Balance beginning of year	\$ 160,062	\$ 59,170
Total expense	264,472	100,892
Contributions paid	-	-
Balance end of year	\$ 424,534	\$ 160,062

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

	<b>2007</b>	<b>2006</b>
Current service cost	\$ 199,132	\$ 72,600
Interest cost	58,166	27,605
Amortization of unrecognized actuarial losses	7,174	687
Total included in administrative and general costs	\$ 264,472	\$ 100,892

The following were actuarial assumptions used:

	<b>2007</b>	<b>2006</b>
Discount rate	8.4%	7.6%
Future salary increases	10.0%	10.0%

The pension plan is unfunded as of December 31, 2007 and 2006.



**9. Asset retirement obligation:**

As part of its development of its Canatuan mining property, the Company incurs asset retirement obligations ("ARO"). The Company's ARO results from its responsibility to remediate and reclaim its properties. The addition in the year relates to estimated retirement obligations for the Canatuan sulphide plant.

	<b>2007</b>	<b>2006</b>
Beginning balance	\$ 812,086	\$ 663,606
Additions	1,008,308	-
Accretion expense	161,215	88,175
Foreign currency translation	18,361	60,305
Ending balance	\$ 1,999,970	\$ 812,086
Current portion of asset retirement obligation	594,236	-
Non-current portion of asset retirement obligation	1,405,734	812,086
Key assumptions:		
Inflation rate	5%	5%
Credit adjusted risk free rate	12%	12%
Undiscounted estimated cash flow required to settle obligation	\$ 3,231,148	\$ 1,133,333

**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:

	<b>2007</b>	<b>2006</b>
Income tax rate	32.12%	32.49%
Net income (loss) for the year	\$ (11,039,142)	\$ 1,806,324
Expected expense (recovery)	\$ (3,545,772)	\$ 586,875
Increase to income taxes resulting from:		
Stock based compensation and other	195,320	314,850
Rate change on valuation allowance	168,787	-
Valuation allowance for Canadian losses	916,588	753,589
Income eligible for Philippines tax holiday	2,265,077	(1,655,314)
	\$ -	\$ -

Substantially all of the Company's entire 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, 2007, the Company has Canadian non-capital losses available for income tax purposes of approximately \$11.9 million (2006 - \$11.4 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, \$629,248 will expire in 2008 (2007 - \$1,268,279). The remaining losses expire commencing in 2009 through to 2027.

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 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:**

Common shares	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	387,696,977	\$ 18,966,531	371,588,171	\$ 16,477,997
Shares issued:				
In exchange for debt obligation	15,000,000	1,568,056	1,594,086	300,000
On exercise of options	3,043,663	399,768	6,507,998	847,210
On exercise of warrants	500,000	82,850	8,006,722	1,341,324
Balance, end of year	406,240,640	\$ 21,017,205	387,696,977	\$ 18,966,531

During 2007, 500,000 warrants were exercised, resulting in proceeds of \$60,000 in cash and a transfer from warrants of \$22,850 for a total of \$82,850. In addition 3,043,663 options were exercised for cash receipts \$232,076 and a contributed surplus transfer of \$167,692. In the first quarter, 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.

**(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.

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	32,517,933	\$ 0.121	31,167,600	\$ 0.097
Granted	9,341,668	0.166	13,078,828	0.172
Forfeited	(3,021,725)	0.155	(4,720,497)	0.151
Expired	(1,354,107)	0.170	(500,000)	0.190
Exercised	(3,043,663)	0.076	(6,507,998)	0.080
Options outstanding, end of year	34,440,106	\$ 0.133	32,517,933	\$ 0.121
Options exercisable, end of year	21,032,591	\$ 0.119	17,170,552	\$ 0.104

Options outstanding and exercisable at December 31, 2007:

Price range	Number outstanding	Weighted average remaining contractual life (years)	Exercisable
\$ 0.08 – 0.11	15,649,269	1.44	13,182,594
0.12 – 0.17	18,090,837	3.70	7,149,997
0.18 – 0.19	700,000	1.33	700,000
\$ 0.080 - 0.19	34,440,106	2.63	21,032,591



## 11. Share capital (continued):

### (d) Warrants:

	2007			2006		
	Number	Dollar Amount	Average Price	Number	Dollar Amount	Average Price
At beginning of year	500,000	\$ 22,850	\$ 0.12	17,028,032	\$ 1,053,013	\$ 0.164
Issued	-	-	-	-	-	-
Exercised	(500,000)	(22,850)	0.12	(8,006,722)	(394,911)	0.118
Expired	-	-	-	(8,521,310)	(635,252)	0.075
At end of year	-	-	-	500,000	\$ 22,850	\$ 0.12

In February 2007, 500,000 warrants relating to the issuance of the convertible debentures in February 2005 were exercised at \$0.12 for total proceeds of \$60,000.

### (e) Stock-based compensation and contributed surplus:

The weighted average fair value of stock options granted was \$0.094 (2006 - \$0.126) per share during the year ended 2007.

The following table sets out the assumptions used in applying the Black-Scholes model:

	2007	2006
Risk free interest rate – average	4.35%	3.98%
Expected life (in years)	5	5
Expected volatility	62%	94%
Dividend yield	0%	0%

In 2007, \$789,087, (2006 - \$826,495) of expense has been charged to the Statement of Operations.

Contributed surplus:

	2007	2006
Balance beginning of year	\$ 3,039,043	\$ 1,906,846
Stock-based compensation	892,003	945,365
Options forfeited	(102,916)	(118,870)
Warrants expired	-	635,252
Transfer to share capital:		
On redemption of convertible debentures	(68,056)	-
On exercise of options	(167,692)	(329,550)
Balance end of year	\$ 3,592,382	\$ 3,039,043

## 12. Related party transactions:

In 2007, the Company entered into the following transactions with related parties at the exchange amounts which approximate fair value:

- The Company paid or accrued management fees of \$511,338 (2006 - \$381,437) to a corporation owned by the President of the Company for the services of the President, Investor Relations and support staff. At December 31, 2007, the Company owed a corporation owned by the President \$129,206 (2006 - \$14,029) relating to advances made for working capital purposes and unpaid management fees.



**12. Related party transactions (continued):**

- During 2007, the Company issued demand promissory notes totaling \$1,699,000 and 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 the end of the year was \$2,458,875.
- In 2007, the Company paid \$16,277 and accrued \$163,802 (2006 - \$246,168) to a corporation controlled by a Director and Officer of a Philippine subsidiary for an apartment, use of a vehicle, secretarial services, utilities and meals.
- In 2007, officers, or related parties to the officers, exercised 500,000 (2006 - 6,375,000) warrants for total proceeds of \$60,000 (2006 - \$669,375) and converted \$1,210,000 of convertible debentures into common shares.
- In 2007, directors, or related parties to the directors, exercised options for proceeds of \$124,827 (2006 - \$8,000) and converted \$150,000 of convertible debentures into common shares. During the year, the Company paid \$36,000 and accrued \$111,750 (2006 - \$38,875) in director fees.

**13. Supplemental cash flow information:**

	<b>2007</b>	<b>2006</b>
<b>Changes in non-cash working capital</b>		
Accounts receivable	\$ 525,774	\$ (613,895)
Inventories	(922,064)	(725,905)
Prepaid expenses	45,063	(101,331)
Assets held for sale	378,855	292,783
Trade accounts payables and accrued liabilities	7,221,910	502,777
Liabilities related to assets held for sale	98,875	(76,851)
	<b>\$ 7,348,413</b>	<b>\$ (722,422)</b>
Investing	\$ 2,544,209	\$ (190,781)
Operations	4,326,474	(747,573)
Discontinued operations	477,730	215,932
	<b>\$ 7,348,413</b>	<b>\$ (722,422)</b>

**14. Segmented information:**

The Company has four operating units: mining activities in the Philippines, a drilling services division, exploration in China and the Philippines, and corporate offices in Canada, China, and the Philippines. All exploration costs incurred in 2007 and 2006 in China and the Philippines have been charged to operating expenses and are included in the Statements of Operations.



**14. Segmented information (continued):**

	<b>Canatuan Mine</b>	<b>Drilling</b>	<b>Exploration</b>	<b>Corporate</b>	<b>Total</b>
<b>2007</b>					
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)	-	(6,259,742)	(32,981,686)
Exploration costs	-	-	(3,069,042)	-	(3,069,042)
	8,845,115	(1,227,082)	(3,069,042)	(6,243,020)	(1,694,029)
Amortization & accretion	(7,251,581)	(413,931)	-	(44,680)	(7,710,192)
	1,593,534	(1,641,013)	(3,069,042)	(6,287,700)	(9,404,221)
Gain on sale of property	-	-	-	276,449	276,449
Foreign exchange loss	-	-	-	(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
<b>2006</b>					
Sales	\$ 39,377,338	\$ 1,587,146	\$ -	\$ -	\$ 40,964,484
Interest income	8,165	1,618	-	3,393	13,176
	39,385,503	1,588,764	-	3,393	40,977,660
Operating expenses	(21,971,215)	(1,855,529)	-	(4,312,292)	(28,139,036)
Exploration costs	-	-	(2,902,216)	-	(2,902,216)
	17,414,288	(266,765)	(2,902,216)	(4,308,899)	9,936,408
Amortization & accretion	(6,505,369)	(192,680)	-	(29,636)	(6,727,685)
	10,908,919	(459,445)	(2,902,216)	(4,338,535)	3,208,723
Gain on sale of property	-	-	-	124,428	124,428
Interest on long-term debt	-	-	-	(434,999)	(434,999)
Foreign exchange loss	-	-	-	(174,602)	(174,602)
Net income (loss), continuing operations	10,908,919	(459,445)	(2,902,216)	(4,823,708)	2,723,550
Net income (loss), discontinued operations	-	1,131,285	(1,157,071)	(891,440)	(917,226)
Net income (loss)	\$ 10,908,919	\$ 671,840	\$ (4,059,287)	\$ (5,715,148)	\$ 1,806,324
Assets	16,219,950	3,214,514	74,154	910,021	20,418,639
Capital expenditures	7,631,580	1,107,449	78,220	534,516	9,351,765



#### 14. Segmented information (continued):

Geographic information:

	2007		2006	
	Revenues	Property, equipment and deferred costs	Revenues	Property, equipment and deferred costs
Philippines	\$ 34,340,038	\$ 17,369,262	\$ 41,104,471	\$ 13,441,531
China	543,785	448,134	3,348,003	659,053
Canada	16,597	166,246	4,821	582,693
Discontinued operations	(543,721)	(288,100)	(3,479,635)	(534,862)
	\$ 34,356,699	\$ 17,695,542	\$ 40,977,660	\$ 14,148,415

The revenues and property, equipment, and deferred costs in discontinued operations are all located in China.

Revenues from four of the drilling division customers represented 73.4% (three customers in 2006 – 94%) of drilling subsidiaries revenues of \$591,845 (2006 - \$5,065,354). There is only one customer in the mining division contributing to 100% of the mining revenues of \$34,070,391 (2006 - \$39,377,338).

#### 15. Commitments:

##### (a) Balabag Property – Philippines:

The Company entered into the Balabag agreement in April 2005. In 2006, the Company reached Stage 3 of the agreement, which required a payment of US\$35,000 and monthly payments of US\$2,000, for total expenditures of US\$59,000. In 2007, the Company was required to make monthly payments of US\$2,000 for a total of US\$24,000 during the year. In February 2008, the Company exercised the option to acquire the rights and obligations of the Balabag property and paid US\$50,000 in cash and US\$300,000 in shares. The agreement includes a net smelter return royalty of 2.5%.

##### (b) Corporate:

The Company rents its office premises on a long-term lease. The annual minimum rent payments amount to approximately \$179,704 for 2008 to 2010 (2006 - \$343,271). Certain recoveries are made under short-term sub-leasing arrangements.

#### 16. Contingencies:

The Company was named as a co-defendant in a claim regarding its acquisition of a property in 1992. This property was sold during 2002 with no recourse to the Company for any title defect. The claim was settled in January 2008 and the Company was awarded \$5,000 as compensation for past legal fees.

In March 2008, the Company was named in a claim 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 has appointed a special committee and engaged independent legal counsel to review the share option related allegations set out in the claim and plans to vigorously defend the action. Legal proceedings are at an early stage and it is premature to make any conclusions respecting the final outcome.



**17. Per share data:**

The weighted average number of common shares issued and outstanding for the year ended December 31, 2007 was 403,117,725 (2006 - 383,627,553). The average number of common shares outstanding after considering the dilution of all options and warrants outstanding was 409,676,085 (2006 - 393,905,745); however, as the Company has net loss during 2007, there is no dilutive effect.

**18. Financial instruments:**

**(a) Foreign currency exchange risk:**

The Company earns revenue, incurs expenses, records accounts receivable and accounts payable in U.S. dollars, Philippine pesos and Chinese renminbi and is therefore exposed to currency risk. The Company has no program in place for hedging foreign currency risk.

**(b) Price risk:**

The Company produces gold and silver, both of which are sold at prevailing market prices. There are no forward sales, and the Company does not engage in price hedging activities.

**(c) Credit risk:**

The Company's accounts receivable are primarily with customers that are subject to normal credit risks.

**(d) Fair value:**

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalents, accounts receivable, accounts payable, accruals and due to related parties approximate their fair value at December 31, 2007 and 2006 due to their short term nature. In 2006, the fair value of the convertible debentures approximated the carrying amount due to the floating nature of the interest rates.

The fair value of investments at December 31, 2006 was \$126,785. The Company sold all its investments during 2007.



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**Share Listing:**

Toronto Stock Exchange Symbol: TVI

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