



TVI Pacific Inc.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2008 and 2007



The discussion and analysis that follows is intended to provide a summary of TVI Pacific Inc. ("TVI" or the "Company") results for the three and six months ended June 30, 2008 and 2007, as well as its financial position and future plans. It should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 and 2007, in addition to 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 or on SEDAR's website at www.sedar.com. Information in this MD&A is as of August 8, 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) planned cost reduction initiatives; (ii) anticipated timing of construction, development and production activities related to the Canatuan Sulphide Project (iii) expectations regarding financing for the Canatuan Sulphide Project; (iv) planned sales of non-core assets including the contract drilling business assets outside the Philippines and the Rapu Rapu royalty; (v) future exploration and development activities at Balabag, Tamarok, Tapisa and the Company's other existing properties in the Philippines; (vi) potential opportunities to evaluate and acquire new properties to expand the Company's land position in the Philippines; and (vii) potential royalty payments from the 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 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 the Rapu Rapu project, formerly operated by Lafayette Mining Ltd., are based on publicly released documents 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, except as required by law.

OVERVIEW OF BUSINESS

TVI is a mining company focused on the acquisition, exploration and development of polymetallic mineral deposits in the Philippines. TVI's principal producing asset, the Canatuan Mine, is located in the Philippines. In addition, TVI holds a diverse portfolio of properties and land positions in the Philippines, including the Balabag exploration project, which the Company believes have significant near-term and long-term development potential. TVI also owns 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 plans to reinvest cash flows generated by the Canatuan Sulphide Project to finance the exploration and development of its diverse portfolio of mining properties and land positions, including the Balabag exploration project. Although the Company secured initial financing for the sulphide plant in March 2008, the Company is currently seeking further financing for the project. Subject to the availability of continued financing, TVI intends to complete the 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 plans to further near mine exploration at Canatuan and to proceed with further exploration drilling and feasibility studies at Balabag, which the Company believes has the potential to be developed as a commercial gold mining operation as early as 2010. In addition, TVI would like to explore its land positions in 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, of which US\$300,000 has been held in escrow. In July 2008, the Company sold its assets located in Kyrgyzstan for proceeds of US\$1,200,000, of which half the proceeds were received immediately and the remaining half will be due in December 2008.

PRODUCING PROPERTIES

Canatuan Mine

The Canatuan Mine is a polymetallic mine located in the Province of Zamboanga del Norte on the island of Mindanao in the Philippines. The Canatuan Mine previously produced gold and silver doré from gossan ore that was mined using open-pit methods and processed through a conventional carbon-in-leach /



Merrill Crowe circuit. The Company depleted the gossan resource and ceased mining operations during the second quarter of 2008.

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

TVI also holds a number of tenements in close proximity to the Canatuan Mine. Through exploration, the Company hopes to find new commercial mineral deposits in the vicinity to further increase the mineral resource and extend the life of the Canatuan Mine by providing new feedstock for the sulphide plant 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

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Mill throughput (dry metric tonnes):				
Total ore processed	21,000	189,813	197,101	361,941
Average daily throughput	2,333	2,086	1,971	2,000
Feed grade (grams per tonne):				
Gold (Au)	1.35	1.90	1.04	1.88
Silver (Ag)	21.63	67.46	17.65	71.80
Recoveries:				
Gold (Au)	92.93%	91.08%	80.71%	89.35%
Silver (Ag)	46.21%	59.10%	34.75%	54.77%
Gold equivalent ounces (AuEqOz)	980	15,437	6,047	28,745

The significant decrease in the total ore processed is due to the depletion of reserves and the cessation of the gossan mining and milling operations during early Q2 2008. Processing of the gossan mineral reserves ceased on April 9, 2008, and the Company's last doré shipment was on April 24, 2008. After the last shipment, additional metal was recovered and sold during the second quarter of 2008 as a result of the clean-up activities of the gossan operations.

The Company continues to focus on environmental rehabilitation of previously disturbed areas. Activities during the period ended June 30, 2008 include maintaining safe water levels in the gossan dam, planting tree seedlings within and surrounding the mine area, and completing the construction of the lower dam concrete spillway.

Sulphide Project

At the Canatuan Mine, TVI plans to complete the development and construction of a copper-zinc flotation plant to process ore from a massive sulphide deposit located beneath the gossan open pit. In March 2008, the Company signed an Omnibus Loan Agreement with an arms length party in order to obtain short-term financing. The Company drew down US\$6,000,000 in each of the months of April 2008 and July 2008, and the remaining US\$3,000,000 of the facility in August 2008. The funds were primarily used to finance capital expenditures and working capital requirements for the Canatuan Sulphide Project.

In April 2008, TVI received a National Instrument 43-101 ("NI 43-101") technical report on the Canatuan sulphide deposit prepared by P.J. Lafleur Geo-Conseil Inc, an independent consulting group. Significant information and assumptions from the feasibility study show a net cash flow of US\$107.4 million and a net present value of US\$79.1 million, discounted at 10%. In addition, the mine life is expected to last approximately six years at an initial mining rate of about 1,300 dry metric tonnes per day. For additional information, please refer to the NI 43-101 technical report titled "43-101 Technical Report for the Sulphide Resources at the Canatuan Project of TVI Pacific Inc". This report was filed with certain securities regulatory authorities in Canada on April 7, 2008 and is available on the SEDAR website at www.sedar.com.



Construction continues on the Sulphide Project with the intention of commissioning the plant in the fourth quarter of 2008. The most recent construction activities have focused on the crushing plant, grinding circuit, flotation area, sulphide dam, as well as the assay laboratory extension. In addition, the Company completed the recruitment for senior technical personnel required to oversee the engineering, development, and construction of the sulphide plant.

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. On May 14, 2008, the Lafayette Group sold its ownership in Rapu Rapu Mine to Philco Resources Ltd., a subsidiary of LG International and Korean Resources Incorporated. On June 30, 2008, the Lafayette Group filed a revised rehabilitation plan and the Company submitted its comments on July 16, 2008. The Court has not yet set another hearing date.

DRILLING OPERATIONS

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. On February 29, 2008, the Company successfully closed the sale of HPGEI, which held the drilling operations in the People's Republic of China.

After the sale of the China operations, TVI's remaining contract drilling operations were owned and operated by Exploration Drilling Corporation ("EDCO"), a wholly-owned subsidiary with operations located in the Philippines and in Kyrgyzstan. In July 2008, EDCO sold its assets located in Kyrgyzstan to a third party and ceased drilling operations in Kyrgyzstan. EDCO transferred possession of the Kyrgyz drilling equipment to the third party purchaser in connection with the execution of the Sale Agreement; however, the Sale Agreement provides that legal title to the equipment will not be transferred until the balance of the purchase price is paid to EDCO in December 2008. While the Company continues to search for prospective drilling projects, it is also considering opportunities to sell the drilling operations in the Philippines.

EXPLORATION

Balabag

In addition to the near mine exploration at Canatuan, which is the Company's primary exploration priority, the Balabag exploration project is another one of TVI's high priority projects. In February 2008, the Company exercised the option it holds on the Balabag property under an agreement with Zamboanga Minerals Corporation. Under the option, the Company acquired the rights and obligations of the Balabag property which covers an area of approximately 48 km². The property is situated approximately 75 kilometres east-northeast of the Canatuan Mine and immediately adjacent to part of the extensive 1,257 km² tenement applications filed in 2005.

Based on preliminary exploration results, TVI believes that the Balabag property has the potential to become a second production center for the Company. 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 additional deposits on the Balabag property. For supplementary information, please refer to the NI 43-101 technical report titled "43-101 Technical Report for the Mineral Resources at the Balabag Project of TVI Pacific Inc". This report was filed with certain securities regulatory authorities in Canada on August 10, 2007, and is available on the SEDAR website at www.sedar.com.

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

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

Tamarok - Tapisa

In North Zamboanga, TVI's applications cover almost all of the targets identified by the prior exploration program, numbering at least 20 epithermal gold, massive sulphide and porphyry copper-gold prospects. The Tamarok copper gold project and the Tapisa exploration project are located 60 kilometres north-northeast of TVI's Balabag exploration project. After completing the final permitting process, TVI plans to conduct geophysical surveys, carry out systematic detailed geological investigations, further delineate drill targets on surface, and schedule a diamond drilling program.

QUARTERLY FINANCIAL INFORMATION

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

	Revenue	Net Income (Loss)	Net Income (Loss) per Share	
			Basic	Diluted
June 30, 2008	\$ 757	\$ (3,238)	\$ (0.0080)	\$ (0.0080)
March 31, 2008	5,009	(646)	(0.0014)	(0.0014)
December 31, 2007	4,945	(5,510)	(0.0137)	(0.0137)
September 30, 2007	7,520	(4,628)	(0.0115)	(0.0115)
June 30, 2007	11,403	159	0.0004	0.0004
March 31, 2007	10,489	(1,060)	(0.0027)	(0.0027)
December 31, 2006	10,887	(705)	(0.0018)	(0.0018)
September 30, 2006	11,296	488	0.0013	0.0012

NON-GAAP MEASURES

Funds from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds from operations is a useful supplemental measure to analyze the Company's ability to generate



cash flow to fund capital investment and working capital requirements. Funds from operations may not be comparable to similar measures used by other companies.

CONSOLIDATED RESULTS OF OPERATIONS

During the six month period ended June 30, 2008, TVI incurred a consolidated net loss of \$3.9 million compared to a net loss of \$0.9 million in the comparable period of 2007. Included in the results is the gain on sale of \$1.7 million for the Company's China operations recognized in Q1 2008. Total revenues decreased \$16.0 million and expenses decreased about \$10.3 million, without consideration of the gain on sale. During the six month period ended June 30, 2008, the Canatuan Mine segment produced a net loss before amortization and accretion of \$0.1 million, compared with a net income of \$8.1 million in the same period of 2007.

During the three months ended June 30, 2008, the Canatuan Mine generated revenues of \$0.8 million compared with \$11.3 million in the same period of 2007. There were only nine operational days during Q2 2008 as the gossan reserves were depleted on April 9, 2008. During the first quarter of 2008, the revenues from the Canatuan Mine decreased about \$5.2 million or 51% compared with Q1 2007 due to the nearing depletion of the gossan orebody.

There were no drilling contracts during the six months ended June 30, 2008, resulting in a decrease in revenues of about \$0.2 million in comparison to the same period in 2007, which had three ongoing drilling contracts. The Company made the decision during the fourth quarter of 2007 to sell portions of its drilling assets. In February 2008 and July 2008 respectively, the Company sold all its drilling assets located in China and Kyrgyzstan. The Company continues to actively pursue new drilling contracts in the Philippines.

Mining, milling, drilling, and selling expenses were about \$1.0 million during Q2 2008 which decreased about \$5.6 million or 85% from Q2 2007. For the six months ended June 30, 2008, mining, milling, drilling, and selling expenses were about \$5.4 million compared to \$12.8 million in the same period in 2007, which is a 58% reduction. There were only nine operational days during Q2 2008, which resulted in minimal variable costs. The decrease in expenses is not as great as the decrease in revenues because of the ongoing activities related to the closure of the gossan operations.

Amortization and accretion expenses decreased by \$0.8 million when comparing Q2 2008 and Q2 2007, and decreased \$1.8 million when comparing the six month periods ended June 30, 2008 and June 30, 2007. The assets related to the Canatuan gossan plant were impaired and written off in Q3 and Q4 2007. However, during the six months ended June 30, 2007, the amortization on these assets was still recognized. No such amortization expense is required in the current period. In addition, the remaining assets at Canatuan are related to the sulphide plant which has not yet commenced operations; therefore, minimal amortization has been realized on these assets.

Exploration expenses totalled \$0.9 million during the six month period ended June 30, 2008, which is a \$1.3 million drop from the comparable period in 2007. The exploration expenditures in Q2 2008 decreased \$0.4 million, or 63%, in comparison to Q2 2007. Due to the shortage of funding, the Company could not conduct the same level of exploration activities as the prior period. The costs incurred in the current six month period are fixed costs, such as salary expense, and payment for the exercise of the Company's option to acquire the rights and obligations of the Balabag property. The Company's total cost to exercise the option was US\$350,000. The Company plans to continue exploration efforts as soon as additional financing is in place.



CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2008, there was a deficit in cash from operating activities before working capital changes and discontinued operations of about \$3.5 million, compared with a surplus of \$3.3 million for the comparable period in 2007. For the three months ended June 30, 2008, there was a deficit in cash from operating activities before working capital changes and discontinued operations of about \$2.0 million, compared with a surplus of \$2.1 million for the comparable period in 2007. The deficits in the 2008 periods are primarily attributable to the cessation of the Canatuan gossan operations and the lack of third party drilling contracts.

During the period, the Company received proceeds of about \$1.9 million for the sale of its China operations, of which \$0.3 million is held as restricted cash. The proceeds went to decrease accounts payable and loans from shareholders. Therefore, cash from financing decreased about \$0.7 million due to repayment to shareholders.

On December 27, 2007, the Company signed a memorandum of agreement with an arms length entity to obtain 42 million Philippine pesos (\$948,360) as bridge financing for the Sulphide Project. This facility is due in the fourth quarter of 2008 and accrues interest at 15% per annum. During Q2 2008, the Company sold a surplus ball mill to the arms length entity at net book value for proceeds of approximately \$80,000. The amount was deducted from the principal due. Including accrued interest, the total amount due to the third party at June 30, 2008 was \$930,186.

At June 30, 2008, the Company had outstanding demand promissory notes totalling \$1,092,778 and US\$750,000 to corporations owned by the President of the Company. The demand promissory notes bear interest at 12% and 14.12% per annum and have no fixed terms of repayment. Including accrued interest, the total amount in promissory notes outstanding at the end of the period was \$1,863,835.

In March 2008, the Company executed a loan facility with an arms length party for US\$15 million. The loan is repayable in October 2008 and accrues interest at 14% per annum compounded monthly. Provided that the Company can enter into an off-take or forward sales contract covering at least 30% of its projected output for at least two years on terms acceptable to the arms length party, the Company may exercise its option to extend the repayment term by six months in exchange for a 1% extension fee. The Company completed its first draw down of US\$6 million in April 2008. An additional US\$6 million was drawn in July 2008 and US\$3 million in August 2008. Including accrued interest, the total amount due on the facility at June 30, 2008 was \$6,243,821.

The Company expects that the short-term loan will not be sufficient to complete the construction of the sulphide plant. 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.

On July 17, 2008, TVI's Philippine affiliate, TVIRD, signed a Letter of Engagement with BNP Paribas under which BNP has agreed to act as the Lead Arranger, on a best efforts basis, for purposes of an international offering of debt securities (up to US\$40 million aggregate principle amount) to be marketed outside of the United States, and to assist the Company in structuring the terms of the associated notes. The funds from the Offering are expected to be utilized to complete the development of the Canatuan Sulphide Project, to advance exploration efforts on the Balabag Epithermal Gold/Silver Project, and for general exploration and working capital purposes, including the repayment of outstanding debt.

In July 2008, the Company finalized a deed of conditional sale for the assets located in Kyrgyzstan. The agreed selling price was US\$1,200,000. Half the proceeds were received in July and the remaining half of the proceeds will be due in December 2008.

There was considerable construction activity on the Canatuan sulphide plant during the most recent quarter. In Q1 2008, the Company had capital expenditures of \$0.2 million; however, with new financing and cash sources during Q2 2008, the Company invested an additional \$1.8 million in capital expenditures. The Company anticipates that the Sulphide Project will begin production by the fourth quarter of 2008, subject to obtaining additional financing.



Going Concern

As a result of capital spending on the Canatuan sulphide plant and other capital projects, operating losses in the drilling operations, and the cessation of the gossan mining operations at Canatuan, the Company's working capital deficiency increased during the period. The working capital deficiency was \$12.5 million at December 31, 2007 and has increased to \$16.9 million at June 30, 2008. The working capital deficiency includes advances from a related party of \$2.0 million.

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, obtaining sufficient financing to complete the Canatuan Sulphide Project and for working capital requirements, re-establishing 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.

OUTLOOK

TVI's results of operations continue to benefit from robust demand for precious metals, as reflected in the continuing strength of gold, silver, copper, and zinc prices. Given the outlook for continued high prices for precious and base metals, TVI believes that there is significant value in the Canatuan Sulphide Project and the Balabag exploration project. TVI continues development activity on the Canatuan Sulphide Project and construction remains on target for the fourth quarter commissioning of the plant. In the future, TVI intends to fund the Balabag and other exploration activities, from cash flow generated from the Canatuan Sulphide Project, future debt financing, 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.

NEW ACCOUNTING PRONOUNCEMENTS

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 Company adopted this standard on January 1, 2008 and did not record any adjustments.

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. The Company adopted these standards on January 1, 2008.



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.

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 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. 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 the period, the Company had promissory notes totalling \$1.1 million and US\$0.8 million outstanding. During the three and six months



ending June 30, 2008, Seajay Management Enterprises Ltd. ("Seajay") charged the Company \$133,346 and \$279,383 for management fees. As at June 30, 2008, Seajay charges the Company for services of the CEO, two accounting staff, two investor relations staff, and one administrative staff member. Seajay is a corporation owned by the President of the Company. At the end of the period, the Company owed Seajay \$173,359 for advances made for working capital purposes and unpaid management fees.

CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

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. The Company's insurance agents have accepted the claim and will cover the costs required to defend the Company, subsequent to a retention amount. Legal proceedings are at an early stage and it is premature to make any conclusions respecting the final outcome; however, management and the Board of Directors believe the claim is without merit.

The Company rents its office premises on long-term leases. At June 30, 2008, the minimum rent payments amount to approximately \$139,770 for 2008 to 2010 (December 31, 2007 - \$179,704). Certain recoveries are made under short-term sub-leasing arrangements.

ADDITIONAL INFORMATION

The Company's outstanding common shares as at August 8, 2008 were 406,240,640 as it was at June 30, 2008. The basic and diluted weighted average number of common shares issued and outstanding during the three and six months ended June 30, 2008 were 406,240,640. The basic weighted average number of common shares outstanding for the three and six months ended June 30, 2007 was 405,521,960 and 400,275,968. The diluted weighted average number of common shares outstanding for the three and six months ended June 30, 2007 was 413,312,240 and 408,066,248.

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.

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 June 30, 2008 and has identified material weaknesses in such controls with respect to the consolidation of its foreign subsidiaries and affiliates including the translation of foreign currencies.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007**



During the past 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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Share Listing:

Toronto Stock Exchange Symbol: TVI

Auditors:

PricewaterhouseCoopers LLP
3100, 111 – 5th Ave. SW
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TVI Pacific Inc.

Interim Consolidated Financial Statements

**For the Three and Six Months Ended
June 30, 2008 and 2007
(Unaudited)**

TVI Pacific Inc.
Unaudited Interim Consolidated Balance Sheets
June 30, 2008
(in Canadian dollars)



	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 218,171	\$ 1,028,833
Accounts receivable	584,853	792,680
Inventories (note 4)	1,558,537	2,890,471
Prepaid expenses	294,508	218,363
Assets held for sale (note 6)	-	764,754
	<u>2,656,069</u>	<u>5,695,101</u>
Restricted cash (note 6)	305,580	-
Property and equipment and deferred costs (note 5)	17,909,862	17,695,542
	<u>\$ 20,871,511</u>	<u>\$ 23,390,643</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,500,553	\$ 13,411,165
Liabilities related to assets held for sale (note 6)	-	477,281
Current loan payable (note 7)	7,174,007	994,980
Current portion of asset retirement obligation (note 9)	892,435	594,236
Due to related parties (note 12)	2,037,194	2,751,883
	<u>19,604,189</u>	<u>18,229,545</u>
Pension obligation (note 8)	436,780	424,534
Asset retirement obligation (note 9)	1,131,443	1,405,734
	<u>21,172,412</u>	<u>20,059,813</u>
Shareholders' equity:		
Share capital (note 10b)	21,017,205	21,017,205
Contributed surplus (note 10d)	3,625,621	3,592,382
Deficit	(22,153,740)	(18,269,703)
Accumulated other comprehensive loss	(2,789,987)	(3,009,054)
	<u>(300,901)</u>	<u>3,330,830</u>
	<u>\$ 20,871,511</u>	<u>\$ 23,390,643</u>

Going concern (note 1)
Commitments (note 14)
Contingencies (note 15)
Subsequent events (notes 1 and 7)

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board:

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

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

TVI Pacific Inc.
Unaudited Interim Consolidated Statements of Operations and Comprehensive Loss
June 30, 2008 and 2007
(in Canadian dollars)



	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues:				
Sales	\$ 750,740	\$ 11,362,534	\$ 5,757,658	\$ 21,759,812
Interest	6,261	2,461	8,742	5,375
	757,001	11,364,995	5,766,400	21,765,187
Expenses:				
Mining, milling, drilling, and selling expenses	985,135	6,633,175	5,416,300	12,835,008
Exploration costs	261,353	705,655	888,326	2,155,679
Administrative and general costs	1,249,201	2,198,032	2,667,859	3,935,611
Amortization and accretion	400,042	1,182,818	1,022,439	2,869,089
Interest expense	440,119	-	542,494	61,907
Foreign exchange loss (gain)	663,783	(71,694)	678,042	(97,666)
Gain on sale of assets	(4,330)	(3,408)	(1,662,172)	(283,210)
	3,995,303	10,644,578	9,553,288	21,476,418
Net income (loss) from continuing operations	(3,238,302)	720,417	(3,786,888)	288,769
Loss from discontinued operations (note 6)	-	(561,622)	(97,149)	(1,189,921)
Net income (loss)	(3,238,302)	158,795	(3,884,037)	(901,152)
Other comprehensive income (loss):				
Change in fair value of investments	-	(7,107)	-	(55,813)
Foreign currency translation adjustment	49,398	(573,834)	219,067	(576,134)
	49,398	(580,941)	219,067	(631,947)
Comprehensive loss	\$ (3,188,904)	\$ (422,146)	\$ (3,664,970)	\$ (1,533,099)
Net income (loss) per share:				
Basic and diluted – continuing operations	\$ (0.008)	\$ 0.001	\$ (0.010)	\$ 0.001
Basic and diluted – discontinued operations	-	(0.001)	-	(0.003)
Basic and diluted	(0.008)	-	(0.010)	(0.002)
Weighted average number of common shares:				
Basic (note 11)	406,240,640	405,521,960	406,240,640	400,275,968
Diluted (note 11)	406,240,640	413,312,240	406,240,640	408,066,248

See accompanying notes to the interim consolidated financial statements.

TVI Pacific Inc.
Unaudited Interim Consolidated Statements of Deficit and
Accumulated Other Comprehensive Loss
June 30, 2008 and 2007
(in Canadian dollars)



	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Deficit, beginning of period	\$ (18,915,438)	\$ (8,290,508)	\$ (18,269,703)	\$ (7,230,561)
Net income (loss)	(3,238,302)	158,795	(3,884,037)	(901,152)
Deficit, end of period	\$ (22,153,740)	\$ (8,131,713)	\$ (22,153,740)	\$ (8,131,713)
Accumulated other comprehensive loss, beginning of period	\$ (2,839,385)	\$ (3,096,454)	\$ (3,009,054)	\$ (3,102,097)
Other comprehensive income (loss)	49,398	(580,941)	219,067	(631,947)
Adoption of financial instruments	-	-	-	56,649
Accumulated other comprehensive loss, end of period	\$ (2,789,987)	\$ (3,677,395)	\$ (2,789,987)	\$ (3,677,395)

See accompanying notes to the interim consolidated financial statements

TVI Pacific Inc.
Unaudited Interim Consolidated Statements of Cash Flows
June 30, 2008 and 2007
(in Canadian dollars)



	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating:				
Net loss from continuing operations	\$ (3,238,302)	\$ 720,417	\$ (3,786,888)	\$ 288,769
Items not involving cash:				
Amortization and accretion	400,042	1,182,818	1,022,439	2,869,089
Accretion on convertible debentures	-	-	-	30,388
Stock based compensation	59,899	234,834	33,239	337,300
Unrealized foreign exchange loss	808,120	2,093	832,542	20,637
Bad debt provision	-	(27,745)	-	(27,745)
Gain on sale of property and equipment	(4,330)	3,327	(9,862)	(275,750)
Gain on sale of investment	-	(6,735)	(1,652,310)	(7,460)
Pension obligation	(56,663)	18,608	12,246	96,512
	(2,031,234)	2,127,617	(3,548,594)	3,331,740
Change in non-cash working capital	(2,067,234)	829,339	(1,601,480)	1,399,847
	(4,098,468)	2,956,956	(5,150,074)	4,731,587
Loss from discontinued operations	-	(561,622)	(97,149)	(1,189,921)
Change in non-cash working capital	-	61,075	(2,708)	(440,260)
	-	(500,547)	(99,857)	(1,630,181)
Financing:				
Debt facilities issued	5,677,355	-	5,677,355	-
Shares and warrants issued	-	1,792	-	220,410
Received from (repayment to) related parties	(11,587)	388,737	(714,689)	517,381
	5,665,768	390,529	4,962,666	737,791
Investing:				
Change in restricted cash	2,790	-	(305,580)	-
Expenditures on property and equipment and deferred costs	(1,792,608)	(4,031,444)	(1,997,044)	(6,855,150)
Proceeds on disposal of property and equipment	83,964	46,673	90,770	275,750
Proceeds on sale of investment	-	63,880	1,942,491	65,905
Realized foreign exchange in net investment	81,746	-	87,597	-
	(1,624,108)	(3,920,891)	(181,766)	(6,513,495)
Change in non-cash working capital	(335,229)	914,341	(313,620)	1,775,088
	(1,959,337)	(3,006,550)	(495,386)	(4,738,407)
Effect of foreign exchange rates on cash	(35,916)	(33,241)	(28,011)	(19,084)
Decrease in cash	(427,953)	(192,853)	(810,662)	(918,294)
Cash and cash equivalents, beginning of period	646,124	685,446	1,028,833	1,410,887
Cash and cash equivalents, end of period	\$ 218,171	\$ 492,593	\$ 218,171	\$ 492,593

See accompanying notes to the interim 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.

During 2007, the Company incurred capital spending on the Canatuan sulphide plant and suffered from operating losses primarily due to deteriorating mine grades, which resulted in lower production volumes at the Canatuan Mine. At December 31, 2007, the Company's working capital deficiency was \$12.5 million and has increased to \$16.9 million at June 30, 2008. The working capital deficiency includes advances from a related party of \$2.0 million.

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 Canatuan sulphide plant construction 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. In March 2008, the Company secured a US\$15.0 million bridge financing facility with an arms length party. The Company drew down US\$6.0 million in each of the months of April 2008 and July 2008, and drew down the remaining US\$3.0 in August 2008. In July 2008, the Company sold its assets located in Kyrgyzstan for proceeds of US\$1.2 million, half of which was received in July 2008 and the remaining half is due in December 2008. The funds enable the Company to continue construction of the Canatuan sulphide plant. Mining and milling of the gossan mineral reserves ceased on April 9, 2008 and the Company's last doré shipment was on April 24, 2008. Based on the Company's financial condition as at June 30, 2008 and the delay in obtaining additional financing for the Canatuan sulphide plant, there is significant risk that the Company may not continue to be a going concern. 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 operated a commercial gold and silver mine from 2005 to April 2008 and is currently constructing the copper and zinc mine for commercial production.

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:

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2007, except as disclosed below. These financial statements should be read in conjunction with those audited consolidated financial statements for the year ended December 31, 2007.

(a) Inventory

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 adoption of this standard did not result in any adjustments.



3. Significant accounting policies (continued):

(b) Capital disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures," which establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objective, policies, and processes for managing capital and quantitative disclosure about what a company regards as capital are required. The Company adopted the standard on January 1, 2008.

(c) Financial instruments, hedging relationship and other comprehensive income

In December 2006, the CICA issued Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". Section 3862 and Section 3863 replace 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The Company adopted these standards on January 1, 2008.

4. Inventories:

	June 30, 2008	December 31, 2007
Consumable drilling parts and supplies	\$ 837,604	\$ 881,672
Mineral processing supplies	631,698	1,323,447
Gold and Silver:		
Work in progress and finished goods	89,235	411,325
Stockpiled ore	-	274,027
	<u>\$ 1,558,537</u>	<u>\$ 2,890,471</u>

During the six month period ended June 30, 2008, the Company recognized \$2,426,677 (June 30, 2007 – \$6,305,987) of inventory as expense under Mining, milling, drilling, and selling expenses. There were no provisions taken for impairment during the periods ended June 30, 2008 and June 30, 2007.

5. Property and equipment and deferred costs:

	June 30, 2008			December 31, 2007	
	Cost	Accumulated amortization	Net book value	Net book value	
Canatuan sulphide plant:					
Property and equipment	\$ 22,268,411	\$ 7,994,177	\$ 14,274,234	\$	13,925,617
Deferred development	2,117,553	-	2,117,553	-	1,362,916
Drilling & other operations	4,070,201	2,552,126	1,518,075	-	2,407,009
	<u>\$ 28,456,165</u>	<u>\$ 10,546,303</u>	<u>\$ 17,909,862</u>	<u>\$</u>	<u>17,695,542</u>

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

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; therefore, all assets related to the gossan operations that cannot be utilized in the sulphide operations were written down in 2007. 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.



6. Discontinued operations:

During the fourth quarter of 2007, in an attempt to reduce ongoing operating costs and monetize non-core assets, the Company made efforts to solicit the sale of the operations and assets held in Tiamut International Limited and Hunan Pacific Geological Exploration Inc., both wholly owned subsidiaries of the Company. On February 29, 2008, the Company sold 100% share ownership of its Chinese subsidiaries to an arms length party for proceeds of US\$1,980,000 (\$1,942,491), of which US\$300,000 (\$305,580) is held in escrow and classified as restricted cash. The cash held in escrow will be released in March 2009.

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

	June 30, 2008	December 31, 2007
Cash and cash equivalents	\$ -	\$ 35,081
Accounts receivable	-	14,267
Inventory	-	414,763
Prepaid expenses	-	12,543
Property and equipment	-	288,100
	-	764,754
Accounts payable and accrued liabilities	\$ -	\$ 477,281

Loss from discontinued operations include the following amounts:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Revenues:				
Sales	\$ -	\$ 37,296	\$ 34,459	\$ 126,216
Interest income	-	94	-	219
	-	37,390	34,459	126,435
Expenses:				
Mining, milling, drilling, and selling expenses	-	136,499	61,079	320,797
Foreign exchange loss (gain)	-	(7,262)	10	1,323
Amortization and accretion	-	77,755	-	153,292
Administrative and general costs	-	176,489	13,776	376,107
Exploration costs	-	215,531	56,743	464,837
	-	599,012	131,608	1,316,356
Loss from discontinued operations	\$ -	\$ (561,622)	\$ (97,149)	\$ (1,189,921)

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 which accrues interest at 15% per annum and is due October 16, 2008. Including accrued interest, the total amount in current loan payable at June 30, 2008 was \$930,186.

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. In addition, the arms length party will assist the Company in raising an additional \$5 million through a different creditor. The facility is scheduled to remain in place for a term of six months, but may be extended for an additional six months at the election of the Company. Extension of the facility is subject to an extension fee of 1%, based upon the amount then outstanding under the facility. On April 15, 2008, the Company completed its first draw down in the amount of US\$6 million from this facility. The Company drew down an additional US\$6 million in July 2008 and US\$3 million in August 2008. Including accrued interest, the total amount in current loan payable at June 30, 2008 was \$6,243,821.



8. Pension obligation:

	June 30, 2008		December 31, 2007	
Present value of obligations	\$	447,825	\$	436,535
Fair value of plan assets		-		-
Present value of unfunded obligations		447,825		436,535
Unrecognized actuarial losses		(8,275)		(8,680)
Unrecognized past service cost		(2,770)		(3,321)
Pension obligation	\$	436,780	\$	424,534

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

	June 30, 2008		December 31, 2007	
Balance beginning of period	\$	424,534	\$	160,062
Total expense		84,106		264,472
Contributions paid		(71,860)		-
Balance end of period	\$	436,780	\$	424,534

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

	June 30, 2008		December 31, 2007	
Current service cost	\$	91,866	\$	199,132
Interest cost and foreign currency translation		(7,760)		58,166
Amortization of unrecognized actuarial losses		-		7,174
Total included in administrative and general costs	\$	84,106	\$	264,472

The following were actuarial assumptions used:

	June 30, 2008		December 31, 2007	
Discount rate		8.4%		8.4%
Future salary increases		10.0%		10.0%

The pension plan is unfunded as of June 30, 2008 and December 31, 2007.

9. Asset retirement obligation:

	Six months ended June 30, 2008		Year ended December 31, 2007	
Canatuan mining property:				
Beginning balance	\$	1,999,970	\$	812,086
Additions		-		1,008,308
Accretion expense – gossan		67,396		161,215
Accretion expense – sulphide		62,474		-
Expenses		(5,026)		-
Foreign currency translation		(100,936)		18,361
Ending balance	\$	2,023,878	\$	1,999,970
Current portion		892,435		594,236
Non-current portion		1,131,443		1,405,734



10. 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	Six months ended June 30, 2008		Year ended December 31, 2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	406,240,640	\$ 21,017,205	387,696,977	\$ 18,966,531
Shares issued:				
In exchange for debt obligation	-	-	15,000,000	1,568,056
On exercise of options	-	-	3,043,663	399,768
On exercise of warrants	-	-	500,000	82,850
Balance, end of period	406,240,640	\$ 21,017,205	406,240,640	\$ 21,017,205

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

(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.

	Six months ended June 30, 2008		Year ended December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	34,440,106	\$ 0.133	32,517,933	\$ 0.121
Granted	500,000	0.050	9,341,668	0.166
Forfeited	(2,406,391)	0.172	(3,021,725)	0.155
Expired	(2,758,334)	0.126	(1,354,107)	0.170
Exercised	-	-	(3,043,663)	0.076
Options outstanding, end of period	29,775,381	\$ 0.130	34,440,106	\$ 0.133
Options exercisable, end of period	24,180,922	\$ 0.124	21,032,591	\$ 0.119

Options outstanding and exercisable at June 30, 2008:

Price range	Number outstanding	Weighted average remaining contractual life (years)	Exercisable
\$ 0.050 – 0.075	500,000	4.72	-
0.076 – 0.114	13,749,268	0.86	13,749,268
0.115 – 0.173	10,455,273	3.37	6,455,559
0.174 – 0.190	5,070,840	2.55	3,976,095
\$ 0.050 – 0.190	29,775,381	2.09	24,180,922



10. Share capital (continued):

(d) Stock-based compensation and contributed surplus:

The weighted average fair value of stock options granted was \$0.033 (December 31, 2007 - \$0.094) per share during six month period ended June 30, 2008.

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

	Six months ended June 30, 2008	Year ended December 31, 2007
Risk free interest rate – average	3%	4%
Expected life (in years)	5	5
Expected volatility	80%	62%
Dividend yield	0%	0%

During the three and six months ended June 30, 2008, a total of \$59,899 and \$33,239 (three and six months ended June 30, 2007 – \$234,834 and \$337,300) of stock-based compensation was charged to the Statement of Operations.

Contributed surplus:

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance beginning of period	\$ 3,592,382	\$ 3,039,043
Stock-based compensation	184,001	892,003
Options forfeited	(150,762)	(102,916)
Transfer to share capital:		
On redemption of convertible debentures	-	(68,056)
On exercise of options	-	(167,692)
Balance end of period	\$ 3,625,621	\$ 3,592,382

11. Per share data:

The weighted average number of common shares issued and outstanding for the three and six months ended June 30, 2008 was 406,240,640 (three and six months ended June 30, 2007 – 405,521,960 and 400,275,968). No adjustments were required to the weighted average number of common shares in computing diluted per share amounts for the three and six months ended June 30, 2008 as the Company was in a loss position for both periods (three and six months ended June 30, 2007 – 413,312,240 and 408,066,248).

12. Related party transactions:

The Company enters into transactions with related parties at the exchange amounts which approximate fair value.

- During the three and six months ended June 30, 2008, the Company paid or accrued management fees of \$133,346 and \$279,383 (for the three and six months ended June 30, 2007 – \$135,002 and \$230,887) to a corporation owned by the President of the Company for the services of the President, Investor Relations and support staff. At June 30, 2008, the Company owed a corporation owned by the President \$173,359 (June 30, 2007 – \$64,838) relating to advances made for working capital purposes and unpaid management fees.
- During the period, the Company had demand promissory notes totaling \$1,092,778 (December 31, 2007 – \$1,699,000) and US\$750,000 (December 31, 2007 – US\$700,000) to corporations owned by the President of the Company. The demand promissory notes bear interest at 12% and 14.12% per annum and have no fixed terms of repayment. Including accrued interest, the total amount in promissory notes outstanding at June 30, 2008 was \$1,863,835.
- During the three and six months ended June 30, 2008, the Company expensed director fees of \$33,250 and \$82,250 (for the three and six months ended June 30, 2007 – \$37,750 and \$73,750).



13. 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.

	Canatuan Mine	Drilling	Exploration	Corporate	Total
Three months ended					
June 30, 2008					
Sales	\$ 750,677	\$ 63	\$ -	\$ -	\$ 750,740
Interest income	5,509	-	742	10	6,261
	756,186	63	742	10	757,001
Operating expenses	(1,154,936)	(112,169)	-	(967,231)	(2,234,336)
Exploration costs	-	-	(261,353)	-	(261,353)
	(398,750)	(112,106)	(260,611)	(967,221)	(1,738,688)
Amortization & accretion	(206,183)	(99,456)	-	(94,403)	(400,042)
	(604,933)	(211,562)	(260,611)	(1,061,624)	(2,138,730)
Gain on sale of property	-	-	-	4,330	4,330
Interest on long-term debt	-	-	-	(440,119)	(440,119)
Foreign exchange loss	-	-	-	(663,783)	(663,783)
Net income (loss), continuing operations	(604,933)	(211,562)	(260,611)	(2,161,196)	(3,238,302)
Net income (loss), discontinued operations	-	-	-	-	-
Net income (loss)	\$ (604,933)	\$ (211,562)	\$ (260,611)	\$ (2,161,196)	\$ (3,238,302)
Assets	18,988,526	1,221,603	-	661,382	20,871,511
Capital expenditures	1,705,720	(4,057)	-	90,945	1,792,608

	Canatuan Mine	Drilling	Exploration	Corporate	Total
Three months ended					
June 30, 2007					
Sales	\$ 11,320,536	\$ 41,998	\$ -	\$ -	\$ 11,362,534
Interest income (expense)	(1,847)	168	-	4,140	2,461
	11,318,689	42,166	-	4,140	11,364,995
Operating expenses	(6,877,478)	(580,229)	-	(1,344,072)	(8,801,779)
Exploration costs	-	-	(735,083)	-	(735,083)
	4,441,211	(538,063)	(735,083)	(1,339,932)	1,828,133
Amortization & accretion	(1,125,950)	(138,541)	-	81,673	(1,182,818)
	3,315,261	(676,604)	(735,083)	(1,258,259)	645,315
Gain on sale of property	-	-	-	3,408	3,408
Foreign exchange gain	-	-	-	71,694	71,694
Net income (loss), continuing operations	3,315,261	(676,604)	(735,083)	(1,183,157)	720,417
Net income (loss), discontinued operations	-	(176,958)	(215,531)	(169,133)	(561,622)
Net income (loss)	\$ 3,315,261	\$ (853,562)	\$ (950,614)	\$ (1,352,290)	\$ 158,795
Assets	20,173,989	2,953,697	7,696	166,409	23,301,791
Capital expenditures	3,759,746	257,626	(954)	15,026	4,031,444



13. Segmented information (continued):

	Canatuan Mine	Drilling	Exploration	Corporate	Total
Six months ended					
June 30, 2008					
Sales	\$ 5,756,585	\$ 1,073	\$ -	\$ -	\$ 5,757,658
Interest income	7,071	-	1,653	18	8,742
	5,763,656	1,073	1,653	18	5,766,400
Operating expenses	(5,893,996)	(173,347)	-	(2,016,816)	(8,084,159)
Exploration costs	-	-	(888,326)	-	(888,326)
	(130,340)	(172,274)	(886,673)	(2,016,798)	(3,206,085)
Amortization & accretion	(705,550)	(211,219)	-	(105,670)	(1,022,439)
	(835,890)	(383,493)	(886,673)	(2,122,468)	(4,228,524)
Gain on sale of property	-	-	-	1,662,172	1,662,172
Interest on long-term debt	-	-	-	(542,494)	(542,494)
Foreign exchange loss	-	-	-	(678,042)	(678,042)
Net income (loss), continuing operations	(835,890)	(383,493)	(886,673)	(1,680,832)	(3,786,888)
Net income (loss), discontinued operations	-	(26,620)	(56,743)	(13,786)	(97,149)
Net income (loss)	\$ (835,890)	\$ (410,113)	\$ (943,416)	\$ (1,694,618)	\$ (3,884,037)
Assets	18,988,526	1,221,603	-	661,382	20,871,511
Capital expenditures	1,915,196	(9,097)	-	90,945	1,997,044

	Canatuan Mine	Drilling	Exploration	Corporate	Total
Six months ended					
June 30, 2007					
Sales	\$ 21,552,066	\$ 207,746	\$ -	\$ -	\$ 21,759,812
Interest income	43	334	-	4,998	5,375
	21,552,109	208,080	-	4,998	21,765,187
Operating expenses	(13,435,380)	(1,030,129)	-	(2,403,790)	(16,869,299)
Exploration costs	-	-	(2,057,001)	-	(2,057,001)
	8,116,729	(822,049)	(2,057,001)	(2,398,792)	2,838,887
Amortization & accretion	(2,649,182)	(198,264)	-	(21,643)	(2,869,089)
	5,467,547	(1,020,313)	(2,057,001)	(2,420,435)	(30,202)
Gain on sale of property	-	-	-	283,210	283,210
Interest on long-term debt	-	-	-	(61,907)	(61,907)
Foreign exchange gain	-	-	-	97,668	97,668
Net income (loss), continuing operations	5,467,547	(1,020,313)	(2,057,001)	(2,101,464)	288,769
Net income (loss), discontinued operations	-	(347,873)	(464,837)	(377,211)	(1,189,921)
Net income (loss)	\$ 5,467,547	\$ (1,368,186)	\$ (2,521,838)	\$ (2,478,675)	\$ (901,152)
Assets	20,173,989	2,953,697	7,696	166,409	23,301,791
Capital expenditures	6,748,835	89,609	-	16,706	6,855,150



14. Commitments:

(a) Balabag Property – Philippines:

The Company entered into the Balabag agreement in April 2005. 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 accrued US\$300,000, which may be settled 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. At June 30, 2008, the minimum rent payments amount to approximately \$139,770 for 2008 to 2010 (December 31, 2007 - \$179,704). Certain recoveries are made under short-term sub-leasing arrangements.

15. Contingencies:

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.

16. Financial instruments:

(a) Analysis of total financial assets and financial liabilities

The tables below set out the Company's classification for each of its financial assets and liabilities at June 30, 2008.

	Financial assets held for trading	Loans and receivables	Other financial Liabilities	Total carrying value
Cash and cash equivalents	218,171	-	-	218,171
Accounts receivable	-	584,853	-	584,853
Restricted cash	-	305,580	-	305,580
Accounts payable and accrued liabilities	-	-	(9,500,553)	(9,500,553)
Current loan payable	-	-	(7,174,007)	(7,174,007)
Due to related parties	-	-	(2,037,194)	(2,037,194)
	218,171	890,433	(18,711,754)	(17,603,150)

(b) Fair values of financial assets and financial liabilities

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, current loan payable, and due to related parties approximate their fair value at June 30, 2008 and 2007 due to their short term nature.

(c) Currency risk

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



16. Financial instruments (continued):

The Company publishes its consolidated financial statements in the Canadian dollar and as a result, it is also subject to foreign currency exchange translation risk in respect of the results and underlying net assets of its foreign operations. For the six month period ended June 30, 2008, the pro forma impact on net loss from a 1% movement in the Canadian dollar exchange with the Philippine peso would be \$50,155.

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

	Average rate		Spot rate	
	Six months ended June 30, 2008	Year ended December 31, 2007	Six months ended June 30, 2008	Year ended December 31, 2007
US Dollar	1.0072	1.0748	1.0186	0.9881
Philippine Peso	0.0240	0.0233	0.0226	0.0237
Chinese Renminbi	0.1427	0.1412	0.1486	0.1353

(d) Price risk

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

(e) Liquidity risk

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

Although the Company has substantial current liabilities in excess of current assets, the Company intends to manage its obligations on a gradual settlement basis. The Company initiated negotiations with its suppliers for the extension of credit terms, among others, as part of its debt management strategies.

As at June 30, 2008, the Company had available undrawn committed short-term borrowing facilities of US\$9 million from a loan agreement signed with a third party in March 2008. The Company was in full compliance with its covenants throughout the period (note 7).

As at June 30, 2008, the Company has a current loan payable and loans from related parties at fixed interest rates.

	Principal at June 30, 2008	Fixed interest rate	Interest expense for the six months ended June 30, 2008	Maturity date
Current loan payable A	\$874,167	15%	\$56,019	October 16, 2008
Current loan payable B	\$6,064,080	14%	\$179,741	October 16, 2008
Loan from related party A	\$1,092,778	12%	\$79,696	Demand
Loan from related party B	\$763,950	14.12%	\$55,391	Demand

(f) Credit risk

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



17. Capital disclosures:

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

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

The Company does not have externally imposed capital requirements. Consistently with other capital intensive companies, the Company monitors capital on the basis of the debt-to-equity ratio and the debt-to-assets ratio. Debt is calculated as the sum of accounts payable and accrued liabilities, current loan payable, and due to related parties. Equity comprises all components of equity other than amounts in accumulated other comprehensive income. Assets are defined as property and equipment and deferred costs, cash and cash equivalents, restricted cash, accounts receivable, and inventories.

	June 30, 2008	December 31, 2007
Debt	18,711,754	17,158,028
Equity	2,489,086	6,339,884
Assets	20,577,003	22,407,526
Debt-to-equity	7.52	2.71
Debt-to-assets	0.91	0.77



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