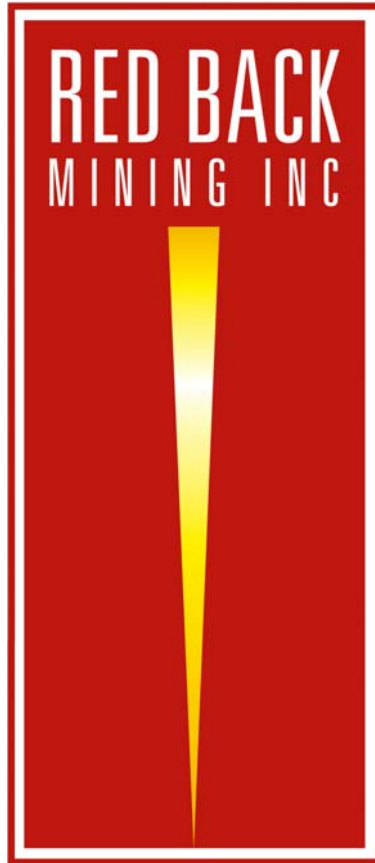


# **RED BACK MINING INC.**



## **ANNUAL REPORT**

**For the Year Ended**

**December 31, 2008**

**RED BACK MINING INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

The following management discussion and analysis of the results of operations and financial condition ("MD&A") for Red Back Mining Inc. ("Red Back" or the "Company") should be read in conjunction with the consolidated financial statements for the periods ended December 31, 2008 and 2007 and related notes thereto. The financial information in this MD&A is reported in US dollars unless otherwise indicated and is partly derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is February 26, 2009. Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The technical contents of this MD&A have been reviewed by Hugh Stuart, BSc., MSc., a Qualified Person pursuant to NI 43-101. Mr. Stuart is the Vice President Exploration of the Company and a Member of the Australasian Institute of Mining and Metallurgy.

Red Back is a company engaged in operating, exploring, acquiring and developing mineral properties. It currently owns two gold mines in West Africa. In Ghana, it holds a 100% interest in the producing Chirano Gold Mine ("Chirano"). Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited ("CGML"), at no cost, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%. In Mauritania, the Company holds a 100% interest in the producing Tasiast Gold Mine ("Tasiast"). Tasiast was acquired on August 2, 2007. In addition to government royalties, Tasiast is subject to a 2% royalty on gold production in excess of 600,000 oz (as at December 31, 2008, Tasiast had produced 158,782 oz). Red Back also holds various other exploration properties in Ghana, Mauritania and Côte D' Ivoire.

## Highlights

The Company's highlights for the year were:

- 76% increase in gold production to 260,847 oz (2007: 148,008 oz, including 20,812 oz at Tasiast during commissioning).
- 48% increase in average realized gold price (2008: \$866 per oz based on 258,278 oz of gold sold in the year; 2007: \$587 per oz based on 125,155 oz sold in the year).
- Net income of \$61.9 million (2007: \$91.9 million loss).
- Cash operating costs of \$428 per oz (2007: \$378 per oz).
- 64% increase in proven and probable reserves at Tasiast.
- 55% increase in proven and probable reserves at Chirano.
- Tasiast moved to "owner-mining" by acquiring contractor's fleet.
- Commenced the Chirano and Tasiast plant expansions.
- Commenced Akwaaba Deeps underground development at Chirano with first delivery of ore to the mill in the fourth quarter of 2008.
- Commenced construction of commercial dump leach pad at Tasiast.
- Completed a Cdn. \$60 million equity financing.

In addition, subsequent to year end, Red Back raised an additional Cdn. \$165 million at Cdn. \$7.50 per share by way of short-form prospectus.

In 2008, Red Back exceeded its total production target by 6.5% and generated approximately \$99 million of free cash flow from operations. In turn, it applied the cash generated from operations, funds raised through an equity financing and its treasury to fund its expansion projects at Chirano and Tasiast, the purchase of the Tasiast mining fleet, the underground development of Akwaaba at Chirano and working capital. The Company estimates that these capital investments will result in Red Back increasing production to 400,000 oz in 2009 and 500,000 oz in 2010.

## Results of Operations

(amounts in thousands of dollars except for earning per share)	Year ended		Six months ended
	December 31, 2008	December 31, 2007	December 31, 2006
Gold revenue	223,660	73,497	36,774
Net income (loss)	61,901	(91,904)	2,842
Earnings per share, basic	0.33	(0.70)	0.03
Earning per share, diluted	0.32	(0.70)	0.03
Total assets	701,702	557,134	137,437
Long-term liabilities	58,885	62,036	13,124

The Company recorded net income of \$61.9 million for the year. In 2007, it recorded a loss of \$91.9 million due to a \$95 million one-time charge resulting from the unwinding of the Chirano forward gold sale contracts. The two most significant contributing factors to the strong operating results in 2008 are:

- Tasiast's 140,054 oz production in its first year of operation which contributed \$119 million in revenues and \$31 million in operating profits; and
- a 49% increase in realized revenue per oz at Chirano as a result of the unwinding of all forward gold sale contracts in late 2007 and increased gold prices.

Operating costs have increased in line with general cost pressures in the industry, driven primarily by high energy costs at both operations. In addition, costs at Chirano have also been negatively impacted by ongoing crushing issues due to the hardness of the ore and the mining of lower grade ore following a pit wall failure at the higher grade Tano pit. The ore hardness issue will be solved following commissioning of a new crushing circuit, due to commence before the end of the first quarter in 2009. The wall failure will be addressed as part of a pit wall cut back at Tano, starting in 2009.

Depreciation and amortization include the amortization of mineral property costs at Tasiast, calculated on a unit of production basis using the recorded fair value of these assets on acquisition and the estimated reserves as at January 1, 2008.

In addition, in 2008 Red Back recognized one-time gains from the sale of securities (\$1.7 million) and from the crystallization of a previously unrealized foreign exchange gain (\$5.7 million). The write-off of previously deferred exploration costs relates to early-stage mineral exploration licenses relinquished in the normal course of business following a review of their prospectivity.

The table below summarizes key operating statistics of the Company for the year and the last quarter.

	Year ended December 31,				Three months ended December 31,			
	2008			2007 Total (Note 2)	2008			2007 Total (Note 2)
	Chirano	Tasiast	Total		Chirano	Tasiast	Total	
Ore tonnes mined ('000t)	3,094	2,522	5,616	2,562	864	1,112	1,976	742
Ore tonnes milled ('000t)	2,205	1,486	3,691	1,984	539	394	933	494
Average grade (g/t)	1.9	3.1	2.5	2.2	2.0	3.7	2.7	2.2
Average recovery	91.8%	93.6%	92.8%	90.3%	91.9%	92.5%	92.2%	91.7%
Gold produced (oz) (Note 3)	120,793	140,054	260,847	127,196	31,346	41,318	72,664	32,525
Gold sold (oz)	120,285	137,993	258,278	125,155	28,778	40,719	69,497	32,666
Realized gold price per oz	\$873	\$860	\$866	\$587	\$783	\$789	\$786	\$803
Cash costs per oz (Note 4)								
Operating	\$478	\$384	\$428	\$378	\$497	\$319	\$393	\$384
Royalty	\$ 26	\$ 26	\$ 26	\$ 21	\$ 26	\$ 24	\$ 25	\$ 31
Depreciation and amortization per oz (Note 4)	\$105	\$227	\$170	\$ 84	\$125	\$224	\$187	\$100

Note 1: Production statistics may not calculate exactly due to rounding

Note 2: Chirano operations only. Tasiast, acquired on August 2, 2007, achieved commercial production at the beginning of 2008.

Note 3: 2007 production excludes 20,812 oz produced at Tasiast during commissioning.

Note 4: This is a non-GAAP measure. It is calculated by dividing costs on the statement of income and deficit by gold oz sold. For Tasiast, approximately \$128 per oz of depreciation and amortization are due to the amortization of the fair value excess on purchase of the Tasiast mineral properties on August 2, 2007.

### Tasiast gold mine, Mauritania

On August 2, 2007, the Company exercised an option to acquire a 100% interest in Tasiast and significant exploration acreage in Mauritania from Lundin Mining Corporation. Tasiast operates under a 30 year mining permit granted by the government of Mauritania in January 2004. The permit area is located in the north-western part of the country, approximately 300 kilometres north of the capital of Nouakchott and 162 kilometres east-southeast of the port city of Nouâdhibou.

Tasiast is the first mine within an extensive, largely under-explored gold system. This system is a 70 kilometres long by 15 kilometres wide north-south trending Archaean age, Aoueuat greenstone belt, which is geologically similar to other Archaean greenstone belts in the world that host major gold deposits. The Tasiast property covers a 60 kilometre strike length of the Aoueuat greenstone belt, virtually encompassing an entire mining district in the country. The mineralization is open along strike and at depth.

Gold mineralization discovered to date occurs in two parallel trends: the Piment Zone, which is continuous over a 4.5 kilometres strike length, and the West Branch, which has been defined by soil sampling, trenching and drilling over a one kilometre strike length. The Piment zone hosts the bulk of the current resources at Tasiast and all of the reserves, with five open pits defined over the strike of the mineralization.

At the beginning of 2008, Tasiast had indicated and measured resources of 1.89 million oz, a 65% increase from the previous year. This resource converted to 1.64 million oz of proven and probable reserves, an increase of 64% from 2007. Current drilling at Piment and West Branch, located 2 kilometres south of the Tasiast plant site, is expected to add and convert further resources and will test the potential of the newly defined Piment Footwall Zone.

The Tasiast plant became available for full operations very late in December 2007 with the installation of a new primary crusher. Commercial production was achieved at the beginning of 2008. Tasiast produced 140,054 oz of gold in 2008, its first year of operation, at a cash cost of \$384 per oz.

In 2008, Tasiast commenced owner-mining by terminating the mining contract and acquiring the related mining fleet for \$18 million, thereby decreasing mining costs from an average of \$2.51 per tonne in the first five months of the year to \$1.52 per tonne in the last seven months of the year. Costs were further positively affected late in the year by the completion of modifications to the heavy fuel oil power generation plant which uses cheaper heavy fuel oil as compared to diesel. As an offset to these efficiencies, during 2008 cash operating costs were negatively affected by high fuel and material prices.

Red Back is expanding the Tasiast processing facility to increase production to approximately 2.5 mtpa. Commissioning of this facility is expected to commence in the second quarter of 2009. Tasiast 2009 cash operating costs are expected to average \$320 per oz based on forecast production of 230,000 oz. Starting in 2010, Tasiast is forecast to produce 250,000 oz of gold per annum.

The Tasiast resource contains significant quantities of lower grade material. Test leaching work undertaken on oxide material in 2008 has confirmed that conventional "dump" leaching is commercially viable. Low grade oxide material is now being mined and deposited on a commercial-scale dump leach pad. Completion of a second water line being constructed as part of the overall plant expansion will allow for full irrigation of the pad starting in the first quarter of 2009. Work is underway to update the reserve calculations at Tasiast to include the lower grade oxide ore to be processed by dump leaching.

### Chirano gold mine, Ghana

The Chirano mining lease, granted in April 2004, is situated in south-western Ghana, 100 kilometres southwest of Kumasi, which is Ghana's second largest city. The project is within the Bibiani gold belt and is currently comprised of a series of open pit deposits. Gold mineralisation continues at depth below the current open pit designs at many of the deposits currently included in the mine plan. Drilling at the

Akwaaba deposit in 2007 established a high grade underground resource which is now being developed as an underground operation.

At January 1, 2008, Chirano had indicated and measured resources of 3.22 million oz. After adjusting for the May 2008 revised estimates of reserves at Akwaaba Deeps, this resource converted to 2.42 million oz of proven and probable reserves, an increase of 55% from 2007.

The underground development of Akwaaba Deeps commenced and progressed as planned in 2008, with first development ore from Akwaaba Deeps delivered to the mill before the end of the year.

In order to support the new Akwaaba Deeps underground development, the Company is expanding the Chirano processing facility to a nominal throughput of 3.5 mtpa. In addition to increasing capacity, the expansion also addresses the rock hardness issue identified in 2007. A new crushing facility will reduce ore to 80% passing 12.5mm, optimizing milling efficiencies with the addition of a third mill and the conversion of the SAG mill to a ball mill. Commissioning of the crushing circuit is expected to commence in the first quarter of 2009 with commissioning of the expanded plant to occur in the third quarter of 2009.

Chirano's 2008 production was 120,793 oz at a cash operating cost of \$478 per oz. In 2009, cash operating costs are expected to average \$480 per oz based on forecast production of 170,000 oz. Cost savings from the plant expansion will not be realised until the fourth quarter of 2009. Production is expected to increase to approximately 250,000 oz per year by 2010 as a result of increased plant throughput and the addition of high grade underground ore from Akwaaba.

Revenue per oz has increased significantly compared to the same period in 2007 because:

- the average spot gold price increased by over 25% in 2008 compared to 2007; and
- in the first ten months of 2007, 54% of gold sales were delivered into fixed-price forward sales contracts. The Company settled the remaining forward contracts in the fourth quarter of 2007 to take full advantage of the strong gold price.

Chirano's increase in cash operating costs compared to 2007 (\$378 per oz) is due principally to three factors. First, the government of Ghana increased the cost of electricity by more than 100% on July 1, 2008 in response to higher energy costs. Second, auxiliary portable crushing continued to be necessary to address the hardness of the pit ore. This extra cost will reduce upon completion of the new crushing facility in early 2009. Third, a pit wall failure at the Tano deposit necessitated a change in mining schedule which resulted in the mining of lower grade ore. The wall failure will be addressed as part of a pit wall cut back at Tano starting in 2009. A realignment of operating costs to lower levels will not be fully realized until the capital expansion is complete and full scale mining from the higher grade underground operation at Akwaaba Deeps commences.

#### Other income statement items

The Company's 2008 general and administrative costs were 28% lower compared to 2007. In 2007, significant non-recurring costs in the nature of travel, consulting and transitional administrative functions were incurred as a result of the successful acquisition, financing and start up of operations of Tasiast.

Interest expense in 2008 relates to a bank loan taken out in September to finance the purchase of a 12.8% interest in Mineral Deposits Limited. The interest expense in 2007 relates to the Chirano project debt which the Company repaid in the fourth quarter of 2007. The 2008 interest income is lower compared to 2007 because of the lower average cash balance on hand throughout 2008.

Stock-based compensation reflects the amortization of the fair value of previously granted stock options over the options' vesting period. The granting of stock options and the determination of their vesting period is at the discretion of the Board. Accordingly, the related expense is not expected to be uniform across quarters or financial years.

In 2008, the Company recognized a \$1.7 million gain as a result of a strategic purchase and sale of marketable securities. A similar gain of \$5.0 million was recognized in 2007 on another investment.

During the first half of 2008, the Company's Canadian dollar holdings reduced significantly due to expenditures on mine development and plant expansions, thereby crystallizing an unrealized historical foreign exchange gain of approximately \$5.7 million previously recorded in accumulated other comprehensive income. The unrealized foreign exchange gain had arisen from holding Canadian dollars during a period of strengthening of the Canadian dollar against the US dollar.

The 2007 loss included a \$95 million charge due to the net settlement of the Chirano forward sale contracts on November 12, 2007. Under these contracts, the Company had remaining commitments to sell 241,000 oz of gold at \$440 / oz over a period extending to 2011.

Minority interest to reflect the Government of Ghana's right to back-in to a 10% ownership of CGML, at no cost, is recognized only to the extent of accumulated retained earnings in the operating subsidiary. At December 31, 2008, the subsidiary had an accumulated deficit of approximately \$45 million and, therefore, no minority interest has been recognized.

The write off of deferred exploration costs in 2008 relates to early stage projects whose exploration licenses were relinquished as they were not deemed prospective.

The Company has not recorded a current tax expense against its operating profits in Ghana and Mauritania because of:

- the planned utilization of deductions available for tax purposes in Ghana; and
- the three year 'income tax holiday' period currently available to the Company's operating subsidiary in Mauritania.

The income tax recovery in 2008 reflects the following:

- an income tax recovery of \$3.8 million to reduce the future income tax liability proportionally to the related reduction in the difference between the accounting and tax bases of depreciation of the mineral properties at Tasiast. This temporary difference arose on the initial acquisition of Tasiast; and
- the recognition of a \$0.7 million future tax benefit of losses carried forward for tax purposes to offset the potential future tax liability arising from the unrealized gain on marketable securities recorded in other comprehensive income at the end of 2008.

Other comprehensive income reflects the unrealized gain on marketable securities held as at December 31, 2008, net of its related future tax liability, and the effect of exchange rate changes on translation of cash and marketable securities measured in a currency other than the US dollar.

#### Selected quarterly information

<b>Quarter</b>	<b>Dec 08</b>	<b>Sep 08</b>	<b>Jun 08</b>	<b>Mar 08</b>	<b>Dec 07</b>	<b>Sep 07</b>	<b>Jun 07</b>	<b>Mar 07</b>
Total revenue (\$'000)	54,650	54,200	60,396	54,414	26,220	17,303	13,760	16,214
Net income (loss) (\$'000)	7,983	10,568	23,485	19,864	(89,989)	742	(1,180)	(1,477)
Net income (loss) per share (\$)	0.04	0.06	0.12	0.11	(0.49)	0.01	(0.01)	(0.02)

Although Red Back achieved record quarterly production in the last three months of 2008 (72,664 oz), total revenue and net income was affected by a 12% reduction in the gold price compared to the average \$895 per oz price realized in the previous three quarters. Overall, costs for the last quarter of the year were in line with expectations, with higher costs at Chirano as described in more detail earlier in this report.

## Liquidity and Capital Resources

At December 31, 2008 the Company had working capital of \$47.0 million as compared to \$76.3 million at December 31, 2007.

During 2008, Red Back undertook aggressive capital expansion, mine development and exploration programs. Capital cost additions for property, plant and equipment can be summarized as follows:

<i>(Amounts in millions of dollars)</i>	<b>Chirano</b>	<b>Tasiast</b>	<b>Total</b>
Plant expansion projects	\$ 32.2	\$ 26.2	\$ 58.4
Mining fleet	-	22.5	22.5
Heavy oil fuel plant	-	5.7	5.7
Back-up diesel generator unit	2.9	-	2.9
Site office/accommodation expansion		2.4	2.4
Others	2.9	7.3	10.2
<b>Total</b>	<b>\$ 38.0</b>	<b>\$ 64.1</b>	<b>\$ 102.1</b>

Additions to exploration and development costs totalling \$77.3 million are mainly attributable to:

- the underground development activities at Akwaaba Deeps at Chirano (\$23.9 million);
- ongoing discretionary exploration to identify new resources (Chirano: \$12.3 million; Tasiast: \$13.1 million);
- open pit cut backs and haul road construction costs to provide access to additional ore reserves at Chirano (\$12.3 million);
- planned expansion of the tailings dam (Chirano: \$3.2 million; Tasiast: 2.4 million);
- construction of dump leach pads at Tasiast (\$2.8 million); and
- the final element of the 2002 purchase price of Tasiast under the acquisition agreement from the original owner of the project, conditional upon commencement of production (\$3.0 million).

During the month of September 2008, Red Back purchased 62,090,407 common shares of Mineral Deposits Limited ("MDL"), an Australian company developing the Sabodala gold project in Senegal, West Africa, for approximately \$27.6 million. The purchase of this 12.8% interest in MDL was funded by a bank loan. This loan was secured by the MDL shares and guarantees from CGML and Tasiast Mauritanie Limited SA and was repayable in one year. Interest on the loan was charged at LIBOR plus 2.50% to December 31, 2008 (2.75% to March 31, 2009 and 3% thereafter). The MDL shares were sold and the bank loan repaid subsequent to December 31, 2008.

On December 11, 2008, the Company raised Cdn. \$60 million by way of short form prospectus, issuing 17.15 million common shares at a price of Cdn. \$3.50 per share. The net proceeds from this offering are being used to fund the Chirano and Tasiast capital expansion projects and general corporate purposes.

In addition, subsequent to year end, Red Back raised Cdn. \$165 million at Cdn. \$7.50 per share by way of short-form prospectus. The Company is also finalizing a corporate bank debt facility which would provide Red Back with additional flexibility in its operations and in responding to new corporate opportunities.

As at December 31, 2008, the Company had purchase commitments totalling \$16.3 million for capital items required for the expansion projects at the two operating mines. The two projects will be completed in 2009 (see "Outlook" section below). Payments due on contractual obligations for each on the next five years are outlined in the table below.

<i>(Amounts in millions of dollars)</i>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1 – 3 years</b>	<b>4- 5 years</b>	<b>&gt; 5 years</b>
Purchase commitments	\$ 16.3	\$ 16.3	-	-	-
Bank debt repayments	28.0	28.0	-	-	-
<b>Total</b>	<b>\$ 44.3</b>	<b>\$ 44.3</b>	<b>-</b>	<b>-</b>	<b>-</b>

Based on current gold prices and forecast production and cash operating costs, Red Back is poised to generate strong cash flow in 2009 in support of its ongoing capital expansion projects. In addition, with the recent completion of the Cdn. \$165 million equity financing, the Company expects to maintain strong cash and working capital positions throughout the year.

### **Transactions with Related Parties**

During the year, Red Back entered into the following related party transactions:

- paid \$0.5 million (2007: \$0.5 million) for management services provided by a company related to the President of the Company;
- paid \$0.01 million (2007: \$0.02 million) to a firm related to a director for legal services;
- paid \$0.47 million (2007: \$0.28 million) to a company controlled by a director for management services; and

In 2007, The Company received \$0.56 million from the sale of a single gold bar to a director at the then prevailing spot market price of gold.

### **Critical Accounting Estimates**

Red Back's accounting policies are described in Notes 2 and 3 of the consolidated financial statements. The application of these policies requires management to make assumptions and derive estimates that are subject to uncertainty and affect the reported results of the Company. The assumptions and estimates are based on historical experience, established industry standards and are reviewed on an ongoing basis to confirm their continued applicability.

#### Mineral Property Costs

Mineral property costs are comprised of capitalized exploration, construction and development costs. Upon commencement of production, this asset is amortized over its estimated useful life on a units-of-production basis. The significant estimate that affects the measure of amortization is the quantity of mineral reserves which, in turn, is then used to determine annual production levels over the life of mine. Depreciation and depletion charges are adjusted prospectively based on periodic re-assessments of the Company's mineral reserves.

The estimate of mineral reserves is prepared by qualified persons in accordance with industry standards defined under NI 43-101 of the Canadian Securities regulatory authorities. Mineral reserve estimates can change over time as a result of numerous factors, including changes in gold prices, production costs, or the re-evaluation of geological, engineering and economic data of a deposit. A significant reduction in mineral reserves would have a negative impact on the calculation of the amortization of this asset.

#### Impairment of Long-lived Assets

The Company reviews the net carrying values of its long-lived assets by considering events or changes in circumstances that could indicate impairment in value. Examples of such events or circumstances are changes in gold prices, legal circumstances or political risks in the countries Red Back operates, sudden physical deterioration of the asset, or other external factors which could have a significant impact on the operations of the Company. The value of an asset, or group of assets, is considered impaired when its total carrying value exceeds the expected undiscounted future cash flows associated with it. Future cash flows are developed using assumptions that reflect the long-term operating plans for an asset given Red Back's best estimate of the most probable set of future economic conditions at the time the cash flows are developed. Inherent in these assumptions are significant risks and uncertainties because significant judgement is required to develop them. As a result, the Company's estimates may change from period to period and future operating results could be materially affected.

### Asset Retirement Obligations

Red Back's determination for asset retirement obligations involves estimation of timing and amounts of future costs relating to ongoing environmental and mine closure activities required under applicable law or the Company's own remediation plans. These estimates are subject to significant uncertainties because many of these costs will not be incurred for a number of years, the nature of the reclamation activities might change and the assumptions regarding the rate of inflation and credit risk-adjusted interest rate used in the calculation may vary over time. Therefore, actual costs and their timing might differ from current estimates.

### Stock-based Compensation

The determination of the value of stock-based compensation is estimated using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Other assumptions include the expected life of the options and the risk-free interest rate at the time of the grant. Changes in these assumptions can materially affect the fair value estimated.

### Income Taxes

The estimation of the Company's future tax liabilities and assets involves significant judgement around a number of assumptions. Judgement must be used to determine the Company's future earning potential, and the expected timing of the reversal of future tax assets and liabilities. Further uncertainties are the result of interpretation of tax legislation in a number of jurisdictions which might differ from the ultimate assessment of the tax authorities. These differences may affect the final amount or the timing of the payment of taxes.

## **Changes in Accounting Policies**

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

### Section 1535: Capital Disclosures

This section establishes disclosure standards for information about an entity's capital in order for a user of the financial statements to evaluate how the entity manages it, including:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital; and
- whether during the period it complied with any externally imposed capital requirements to which it is subject and the consequences of any such non-compliance, if applicable.

The Company's objectives in managing its capital resources are to safeguard the entity's ability to continue as a going concern and, thereby, maximize returns to shareholders in the context of the market. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevailing economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets.

Red Back is currently undertaking capital expansion programs at its two mining operations. To date, funding for these two projects has come from the Company's cash flow from operations, its working capital position and equity financing. Management is also finalizing a corporate bank debt facility to provide it with additional flexibility in modifying its expansion plans, if required, or responding to new opportunities.

The Company is not currently subject to any externally imposed requirements of its shareholders' equity and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2008.

## Sections 3862 and 3863: Financial Instruments, Disclosures and Presentation

These sections enhance the disclosure standards for financial instruments to assist users in evaluating:

- the significance of financial instruments for the Company's financial position and performance;
- the measurement basis or bases and the criteria used to determine classification for different types of instruments; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

The "Financial Instruments and Related Risks" section of the MD&A summarizes these new disclosure requirements.

## **New Accounting Pronouncements**

The Canadian Institute of Chartered Accountants issued the following two new additional standards. The Company's consolidated financial statements are currently not affected by these two new pronouncements.

### Section 3064: Goodwill and Intangible Assets

This section addresses the measurement and disclosure of goodwill and intangible assets and is effective for the Company's interim and annual periods commencing after December 31, 2008.

### Sections 1582: Business Combinations

This section establishes revised standards for the accounting for a business combination which are aligned with International Financial Reporting Standard ("IFRS") on business combinations.

The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

## **International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board ("AcSB") adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The AcSb confirmed in February 2008 plans to converge Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS over a transition period with an effective implementation date effective for interim and annual periods commencing January 1, 2011. Early adoption of IFRS is possible.

At this time, the Company has not yet determined the full impact of the transition on its consolidated financial condition. However, it has completed a review of its accounting policies and of Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS. Following this initial diagnostic step, in 2009 the Company will proceed to make a determination of the impact of transition to IFRS on its financial statements and systems, if any. The implementation and transition phase to IFRS are currently planned for 2010 in order to meet the expected adoption date of January 1, 2011. Training of Company personnel started in 2008 and will continue throughout 2009.

## **Financial Instruments and Related Risks**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and bank loans. Cash and cash equivalents and marketable securities are classified as available for sale financial assets, recognized at fair value, with any unrealized gain or loss recorded in other comprehensive income. The fair value of all other financial instruments approximates their carrying values, due to their short-term maturity or capacity of prompt liquidation. Cash and cash equivalents are held through large financial institutions and, as at December 31, 2008 and December 31, 2007 did not include term deposits or short-term investments.

Marketable securities are comprised of shares traded on a foreign stock exchange and are very sensitive to price fluctuations. A 10% change in their share price would give rise to an increase/decrease in other comprehensive income of approximately \$2.9 million.

As at December 31, 2008, the Company's currency risk was limited to \$8.3 million of cash balances (\$36.5 million at December 31, 2007) denominated in Canadian dollars and to \$29.0 million in marketable securities (\$nil at December 31, 2007) measured in Australian dollars. Based on this exposure, a 10% change in the Canadian/US dollar exchange rate would give rise to an increase/decrease in other comprehensive income of approximately \$0.8 million and a 10% change in the Australian/US dollar exchange rate would give rise to an increase/decrease in other comprehensive income of approximately \$2.9 million. The Company has no other significant exposure to currencies other than the US dollar because its revenues and the majority of its costs are measured in US dollars.

The fair value of the bank loan used to finance the acquisition of marketable securities is not affected by interest rate fluctuations as its related cost of borrowing is based on the US LIBOR rate. Further, a 10% change in US LIBOR rates would not have had a material impact on the Company's interest expense for the year.

Red Back does not currently have financial instruments that are exposed to significant commodity or credit risks because the Company does not:

- engage in derivative commodity transactions; or
- have large loans and receivables with third parties requiring a review of credit worthiness.

Further, the Company is not exposed to significant liquidity risk because of the nature of the financial assets it currently holds.

## **Outstanding Share Data**

As at February 26, 2009, the Company had 228,930,571 common shares issued and outstanding and 7,839,400 share options outstanding under its stock-based incentive plan.

## **Risk Factors**

The operations of the Company are speculative due to the high risk nature of its business which includes the acquisition, financing, exploration, development and operation of mining properties. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

### *Calculation of Mineralization, Resources and Reserves*

There is a degree of uncertainty attributable to the calculation of mineralization, resources and reserves and corresponding grades being mined or dedicated to future production. Until reserves or mineralization are actually mined and processed, the quantity of mineralization and reserve grades must be considered estimates only. In addition, the quantity of reserves and mineralization may vary depending on commodity prices. Any material change in quantity of reserves, mineralization, grade or stripping ratio may affect the economic viability of a project. In addition, there can be no assurance that recoveries from laboratory tests will be duplicated in tests under on-site conditions or during production.

### *Infrastructure*

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges and power and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's activities and profitability.

### *Title Matters*

Any changes in the laws of Ghana, Mauritania or Côte D' Ivoire relating to mining could materially affect the rights and title to the interests held there by the Company. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining authorizations nor that such exploration and mining authorizations will not be challenged or impugned by third parties.

### *Competition*

There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other exploration and mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

### *Mineral Prices*

Factors such as inflation, foreign currency fluctuation, interest rates, supply and demand and industrial disruption have an adverse impact on operating costs, commodity prices and stock market prices and on the Company's ability to fund its activities. The Company's revenues, costs and share price can be affected by these and other factors which are beyond the control of the Company. The market price of minerals, including industrial minerals, is volatile and cannot be controlled. There is no assurance that, even if commercial quantities of ore are discovered, a profitable market will continue to exist for the sale of products from that ore. Factors beyond the control of the Company may affect the marketability of any minerals discovered. Mineral prices have fluctuated widely, particularly in recent years. The marketability of minerals is also affected by numerous other factors beyond the control of the Company, including government regulations relating to royalties, allowable production and importing and exporting of minerals, the effect of which cannot be accurately predicted.

Presently, the Company sells its gold production in the market at spot. Therefore, revenues and operating profits are influenced by fluctuations in the world gold price. In 2008, a 10% variation in the average realized gold price would have resulted in a \$22 million effect on revenues and operating profits for the year. If the price of gold should drop significantly, the economic prospects of the Company's current projects could be significantly reduced or rendered uneconomic.

### *Funding Requirements*

Mining exploration and development involves financial risk and capital investment. The capital expansion of Chirano and Tasiast, the continuance of the Company's development and exploration activities and its growth through the acquisition of exploration, development or production assets depend upon the Company's ability to generate positive cash flows, private and public equity financing, debt and/or other means. There is no assurance that the Company will be successful in obtaining additional financing on a timely basis or continue to generate positive cash flows.

### *Uninsured Risks*

The mining business is subject to a number of risks and hazards including environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Such risks could result in damage to, or destruction of, mineral properties or facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability.

The Company maintains insurance against certain risks associated with its business in amounts that it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting claim.

#### *Foreign Operations*

Operations, development and exploration activities carried out by the Company are or may be affected to varying degrees by taxes and government regulations relating to such matters as environmental protection, land use, water use, health, safety, labor, restrictions on production, price controls, currency remittance, maintenance of mineral rights, mineral tenure, and expropriation of property. There is no assurance that future changes in taxes or such regulation in the various jurisdictions in which the Company operates will not adversely affect the Company's operations. Industrial disruptions, work stoppages and accidents in the course of the Company's operations can result in future production losses and delays, which may adversely affect future profitability. The Company's principal assets are held outside of Canada in Ghana and Mauritania, West Africa. Although the operating environment in Ghana and Mauritania is considered favorable compared to that in other developing countries, with various government incentives offered to attract international investment into Ghana and Mauritania, there are still political risks. The risks include, but are not limited to, terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation and labor unrest. Changes in mining or investment policies or shifts in political attitudes may also adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, maintenance of claims, environmental legislation, expropriation of property, land use, land claims of local people, water use and safety. The effect of these factors cannot be accurately predicted.

#### *Political Climate in Mauritania*

On August 6, 2008, the president of Mauritania was deposed in a military coup led by General Mohamed Ould Abdel Aziz, who subsequently established a Higher State Council ("HSC") and assumed leadership of the country. The HSC has stated that it will supervise political groups and civil society in concert with other institutions of the State, and will organize a new presidential election. Elections have been called for June, 2009, and until such time Mauritania remains under military rule. The Company has experienced heightened compliance requirements with applicable rules since the date of the military coup. The HSC has stated that it is committed to respecting international treaties, engagements, and conventions entered into by Mauritania. Much of the international community, including the European Union ("EU"), the African Union ("AU") and the United States, quickly condemned the military coup and indicated that economic sanctions may be imposed if the former president and government are not re-instated. The HSC has engaged in discussions with the EU, AU, and United States in attempting to negotiate a resolution. However, diplomatic efforts have thus far proven unsuccessful. At this time it is unclear whether international economic sanctions will be imposed and whether such sanctions would be so broad as to affect private businesses in Mauritania, including the Tasiast operations. If economic sanctions are imposed, they may have a material negative impact upon the business and operations of the Company.

#### *Exploration and Development Risks*

The successful exploration and development of mineral properties is speculative and subject to a number of uncertainties which even a combination of careful evaluation, experience and knowledge may not eliminate. There is no certainty that the expenditures made or to be made by the Company in the exploration and development of its mineral properties or properties in which it has an interest will result in the discovery of mineralized materials in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable deposits. While discovery of a base metal or precious metal bearing structure may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that exploration programs carried out by the Company will result in profitable commercial mining operations.

The Company's operations are subject to all of the hazards and risks normally incident to mineral exploration, mine development and operation, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards such as unusual or unexpected formations, pressures or other conditions may also be encountered.

#### *Environmental and Other Regulatory Requirements*

The current or future operations of the Company, including development activities and, if warranted, commencement of production on properties in which it has an interest, require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health and safety, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company believes it is in substantial compliance with all material laws and regulations that currently apply to its activities. However, there can be no assurance that all permits which the Company may require for the conduct of mineral exploration and development can be obtained or maintained on reasonable terms or that such laws and regulations would not have an adverse effect on any such mineral exploration or development which the Company might undertake.

Amendments to current laws, regulations and permits governing operations and activities of mineral exploration companies, or more stringent interpretation, implementation or enforcement thereof, could have a material adverse impact on the Company.

#### *Mining and Investment Policies*

Changes in mining or investment policies or shifts in political attitude may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and safety regulations. The effect of these factors cannot be accurately predicted.

#### *Hedging and Foreign Exchange*

While hedging of commodity prices and exchange and interest rates is possible, there is no guarantee that appropriate hedging will be available at an acceptable cost should the Company choose or need to enter into these types of transactions.

## **Outlook**

The Company has grown significantly over the last two years towards meeting its objective of becoming an intermediate gold producer. Completion of plant expansions at Chirano and Tasiast is expected to increase the Company's production profile to 400,000 oz in 2009 and 500,000 oz in 2010 (2008: 260,847 oz).

Overall, cash operating costs are estimated at \$385 per oz in 2009 (2008: \$428 per oz). At current gold prices, this is expected to generate strong cash flows in support of continued growth through further internal expansion as outlined below and business development activities.

#### Chirano

In 2009, operations at Chirano will include both open pit mining and the commencement of production from the higher grade underground deposit of Akwaaba Deeps, for total estimated production of 170,000 oz at cash operating costs of \$480 per oz (2008: 120,793 oz at \$478 per oz).

Akwaaba Deeps is expected to reach full production of 100,000 tonnes per month in 2010. The capital expansion of Chirano's processing plant facilities will be completed in 2009. The combination of these projects will lead to increased annual production of approximately 250,000 oz per annum by 2010.

A program of open pit cut backs commenced in 2008 to access over 600,000 oz included in the current reserve estimates will continue in 2009.

Total anticipated 2009 capital costs are as follows:

- capital expansion: \$20 million
- underground development: \$28 million (including capitalization of pre-production costs)
- open pit cut backs: \$14 million
- sustaining capital: \$ 7 million

Revised resource and reserve estimates are expected before the end of the first quarter of 2009. Exploration and evaluation below the optimized pits will continue, in particular at Obra, Suraw, Akoti and Paboase, to identify additional high grade discoveries at depth. A \$2 million exploration program has been approved for the first half of 2009.

### Tasiast

Tasiast is forecast to produce 230,000 oz of gold in 2009 (2008: 140,054 oz). This will be as a result of higher throughput following completion of the expansion of Tasiast's processing plant. This production is forecast to include 30,000 oz of gold from dump leach operations. Cash operating costs in 2009 are estimated at \$320 per oz (2008: \$384 per oz).

Capital costs for 2009 will include the following:

- capital expansion: \$18 million
- mining fleet expansion: \$ 9 million
- dump leach pads: \$ 4 million
- sustaining capital: \$ 6 million

Revised resource and reserve estimates are expected before the end of the first quarter of 2009. Tasiast continues to demonstrate significant exploration upside and an initial \$5 million six-month exploration program is underway to identify new resources in and around the existing ore bodies.

### Other activities

The Company actively pursues future growth opportunities by evaluating the acquisition of exploration, development or production assets on an on-going basis. At any given time, discussions and activities can be in process on a number of initiatives, each at different stages of development. Although the Company may from time to time be a party to a number of letters of intent in respect of certain opportunities and other acquisitions, Red Back currently does not have any binding agreements or binding commitments to enter into any such transactions. There is no assurance that any potential transaction will be successfully completed.

### **Internal Financial Reporting and Disclosure Controls**

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design and effectiveness of internal controls over financial reporting (as such term is defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109")), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. The Company maintains an effective control environment and has used the *Internal Control - Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission to design the Company's internal controls over financial reporting. The Company's CEO and CFO believe that the Company's internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Following the purchase of Tasiast, the Company's CEO and CFO engaged in a process of assessing this operation's internal controls over financial reporting and converting its accounting systems and system of internal controls to the standards established for the Company's existing operations. Full conversion of the accounting systems was completed as planned by the end of the first quarter in 2008 and internal controls documentation was completed in the third quarter in conjunction with an overall, company-wide review of the documentation of the controls over financial reporting and disclosure controls and procedures.

Other than as described in the previous paragraph, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

The Company's CEO and CFO are also responsible for the design and effectiveness of disclosure controls and procedures (as such term is defined in NI 52-109) to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's CEO and CFO believe that the Company's disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed under applicable securities legislation is recorded, processed, summarized and reported in a timely manner.

The Company's CEO and CFO have each evaluated the effectiveness of the Company's internal controls over financial reporting and disclosure controls and procedures as of December 31, 2008 and have concluded that these controls and procedures are effective in reasonably assuring the reliability of financial reporting and that material information relating to the Company is made known to them by others within the Company and that such controls and procedures have no material weaknesses and no limits on the scope of their design.

### **Cautionary Note Regarding Forward-Looking Statements**

This document contains "forward looking statements" concerning anticipated developments and events that may occur in the future. Forward looking statements include, but are not limited to, statements with respect to the future price of gold, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements in the section entitled "Risk Factors", there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking statements. These forward looking statements are made as of the date of this document and, other than as required by applicable securities laws, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The consolidated financial statements have been prepared by and are the responsibility of the management of the Company.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, using management's best estimates and judgments based on currently available information.

The Company maintains an appropriate system of internal controls to provide reasonable assurance that financial information is accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, comprised of independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

***“Richard Clark”***

Richard Clark  
President & Chief Executive Office

Vancouver, British Columbia  
February 26, 2009

***“Alessandro Bitelli”***

Alessandro Bitelli  
Chief Financial Officer

## Auditors' Report

### To the Shareholders of Red Back Mining Inc.

We have audited the consolidated balance sheets of **Red Back Mining Inc.** as at December 31, 2008 and 2007, and the consolidated statements of income (loss) and deficit, comprehensive income (loss) and cash flows for the years then ended. 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(signed) PricewaterhouseCoopers LLP*

### Chartered Accountants

Vancouver, British Columbia  
February 27, 2009

**RED BACK MINING INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in Thousands of United States Dollars)

	December 31, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 22,205	\$ 62,830
Accounts receivable	15,179	10,284
Marketable securities (Note 4)	28,966	-
Inventories (Note 5)	45,132	28,439
Prepaid expenses	397	431
	111,879	101,984
Property, plant and equipment (Note 6)	213,921	125,745
Mineral properties and related expenditures (Note 7)	375,902	329,405
	\$ 701,702	\$ 557,134
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 36,837	\$ 25,689
Bank loan (Note 9)	28,000	-
	64,837	25,689
Non current liabilities		
Asset retirement obligations (Note 10)	9,768	9,144
Future income tax liability (Note 15)	49,117	52,892
	58,885	62,036
Shareholders' equity		
Share capital (Note 11)	607,914	556,920
Contributed surplus (Note 12)	10,506	8,146
Accumulated other comprehensive income (Note 13)	1,892	8,576
Deficit	(42,332)	(104,233)
	577,980	469,409
	\$ 701,702	\$ 557,134

**Approved by the Board:**

***“Richard P. Clark”***

\_\_\_\_\_  
**Director**

***“Lukas H. Lundin”***

\_\_\_\_\_  
**Director**

See accompanying notes to consolidated financial statements.

**RED BACK MINING INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT**  
(in Thousands of United States Dollars)

	Year Ended December 31, 2008	Year Ended December, 31 2007
Gold revenue	\$ 223,660	\$ 73,497
Costs and expenses		
Operating	110,537	47,354
Depreciation and amortization	43,972	10,495
Accretion of asset retirement obligations (Note 10)	503	353
Royalties	6,710	2,597
Write off of exploration costs (Note 7)	849	-
Profit from mining operations	<u>61,089</u>	<u>12,698</u>
Depreciation	20	204
General and administrative	7,247	10,020
Interest expense and bank charges	673	1,465
Stock based compensation (Note 11(b))	3,999	6,102
Interest income	(877)	(1,878)
	<u>11,062</u>	<u>15,913</u>
Income (loss) before the undernoted items	50,027	(3,215)
Foreign exchange gain (Note 13)	5,659	-
Gain on sale of securities	1,708	4,965
Settlement of forward gold contracts (Note 11(a)(i))	-	(94,703)
Minority interest (Note 3(a))	-	1,049
Income (loss) before income taxes	57,394	(91,904)
Income tax recovery	4,507	-
Net income (loss)	61,901	(91,904)
Deficit, beginning of the year	<u>(104,233)</u>	<u>(12,329)</u>
Deficit, end of the year	<u>\$ (42,332)</u>	<u>\$ (104,233)</u>
Income (loss) per common share - basic	<u>\$ 0.33</u>	<u>\$ (0.70)</u>
Weighted average number of shares outstanding - basic	<u>189,386,214</u>	<u>131,496,088</u>
Income (loss) per common share - diluted	<u>\$ 0.32</u>	<u>\$ (0.70)</u>
Weighted average number of shares outstanding - diluted	<u>190,702,308</u>	<u>131,496,088</u>

See accompanying notes to consolidated financial statements.

**RED BACK MINING INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in Thousands of United States Dollars)

	Year Ended December 31, 2008	Year Ended December 31, 2007
<b>Cash flows from (used in) operating activities</b>		
Net income (loss)	\$ 61,901	\$ (91,904)
Items not effecting cash		
Amortization and depreciation	43,992	10,699
Accretion of asset retirement obligations	503	353
Foreign exchange gain	(5,659)	-
Future income taxes	(4,507)	-
Gain on sale of marketable securities	(1,708)	(4,965)
Minority interest	-	(1,049)
Stock based compensation	3,999	6,102
Shares issued as a charitable donation (Note 11(a)(iii))	-	512
Write off of exploration costs	849	-
	<u>99,370</u>	<u>(80,252)</u>
Net changes in non-cash working capital items		
Accounts receivable and prepaid expenses	(4,861)	(1,944)
Inventories	(16,693)	(9,969)
Accounts payable and accrued liabilities	8,272	3,117
	<u>86,088</u>	<u>(89,048)</u>
<b>Cash flows from (used in) investing activities</b>		
Mineral properties and related expenditures	(77,268)	(11,186)
Purchase of property, plant and equipment	(99,250)	(19,503)
Purchase of marketable securities	(31,648)	(47,677)
Proceeds from the sale of marketable securities	5,775	52,642
Acquisition of Tasiast (Note 8)	-	(266,420)
	<u>(202,391)</u>	<u>(292,144)</u>
<b>Cash flows from (used in) financing activities</b>		
Common shares issued, net of cash issue costs	49,355	451,198
Proceeds from debt	28,000	-
Debt repayments	-	(23,400)
	<u>77,355</u>	<u>427,798</u>
Effect of exchange rate changes on translation of cash denominated in a currency other than the US dollar	<u>(1,677)</u>	<u>8,660</u>
Increase (decrease) in cash and cash equivalents	(40,625)	55,266
Cash and cash equivalents, beginning of the year	<u>62,830</u>	<u>7,564</u>
Cash and cash equivalents, end of the year	<u>\$ 22,205</u>	<u>\$ 62,830</u>

See accompanying notes to consolidated financial statements.

**RED BACK MINING INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in Thousands of United States Dollars)**

	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
Net income (loss)	\$ 61,901	\$ (91,904)
Unrealized gain on marketable securities available for sale, net of applicable future income taxes	5,044	-
Unrealized foreign exchange gain (loss) on net assets denominated in other than the US dollar	(6,069)	8,660
Comprehensive income (loss)	<u>\$ 60,876</u>	<u>\$ (83,244)</u>

See accompanying notes to consolidated financial statements.

**RED BACK MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(Tables in Thousands of United States Dollars)**

**1. Nature of Operations and Basis of Presentation**

Red Back Mining Inc. (“Red Back” or the “Company”) is a mineral resource corporation engaged in operating, exploring, acquiring and developing mineral properties. The Company currently owns two gold mines in West Africa. In Ghana, it holds a 100% interest in the producing Chirano Gold Mine (“Chirano”). Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, at no cost, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%. In Mauritania, the Company holds a 100% interest in the Tasiast Gold Mine (“Tasiast”). Tasiast was acquired on August 2, 2007 (see note 8). The Company also holds various other exploration properties in Ghana, Mauritania and Côte d’Ivoire.

**2. Changes in Accounting Policies**

- (a) Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

Section 1535: Capital Disclosures.

This section establishes disclosure standards for information about an entity’s capital in order for a user of the financial statements to evaluate how the entity manages it, including:

- i. qualitative information about its objectives, policies and processes for managing capital;
- ii. summary quantitative data about what it manages as capital; and
- iii. whether during the period it complied with any externally imposed capital requirements to which it is subject and the consequences of any such non-compliance, if applicable.

These new disclosure requirements are summarized in Note 18.

Sections 3862 and 3863: Financial Instruments, Disclosures and Presentation

These sections enhance the disclosure standards for financial instruments to assist users in evaluating:

- i. the significance of financial instruments to the Company’s financial position and performance;
- ii. the measurement basis or bases and the criteria used to determine classification for different types of instruments; and
- iii. the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks.

These new disclosure requirements are summarized in Note 3(d).

- (b) The Canadian Institute of Chartered Accountants issued the following two new additional standards. The Company’s consolidated financial statements are currently not affected by these two new pronouncements.

### Section 3064: Goodwill and Intangible Assets

This section deals with the measurement and disclosure of goodwill and intangible assets, effective for the Company's interim and annual periods commencing after December 31, 2008.

### Sections 1582: Business Combinations

This section establishes revised standards for the accounting for a business combination which are aligned with International Financial Reporting Standard ("IFRS") on business combinations.

The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

- (c) In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that outlined the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that publicly-listed companies will be required to follow IFRS starting for interim and annual financial statements beginning on or after January 1, 2011. The transition to IFRS will be applied retroactively and, accordingly, will require the restatement of the amounts reported during the year ended December 31, 2010. While the Company has begun assessing the effect of the adoption of IFRS on the financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **3. Significant Accounting Policies**

### (a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's material subsidiaries are Red Back Mining Ghana Limited and Chirano Gold Mines Limited (100% owned Ghanaian companies), and Tasiast Mauritanie Limited SA, (100% owned Mauritanian company). All significant inter-company balances and transactions have been eliminated upon consolidation.

As detailed in Note 7, the Company currently holds 100% of Chirano Gold Mines Limited ("CGML"), which owns the Chirano Gold Mine. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of CGML, at no cost, the Company will hold a 90% interest in CGML with the Government of Ghana holding 10%. Accordingly, the Company recognizes a minority interest of 10% on the retained earnings of CGML. No minority interest is recognized if CGML is in a deficit position.

### (b) Foreign Currencies

The US dollar is the reporting currency of the Company.

The assets and liabilities of self-sustaining operations which are denominated in a currency other than the US dollar are translated at year-end exchange rates, and revenues and expenses are translated at the average exchange rates. Differences arising from these foreign currency translations are reported as other comprehensive income.

For integrated operations, monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average exchange rates, except for items related to non-monetary assets and liabilities which are translated at historical rates. Gains or losses on translation of monetary assets and monetary liabilities are charged to earnings.

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Significant areas where management's judgement is applied include: estimated lives of mining assets, asset retirement obligations, future income tax balances and rates, stock based compensation valuation assumptions and asset impairment considerations.

(d) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and bank loans. Cash and cash equivalents and marketable securities are classified as available for sale financial assets, recognized at fair value with any unrealized gain or loss recorded in other comprehensive income. The fair value of all other financial instruments approximates their carrying values, due to their short-term maturity or capacity of prompt liquidation.

Additional disclosure required under Section 3862 can be found in the Management Discussion and Analysis for the year ended December 31, 2008, filed with securities regulators together with these financial statements, under the section titled "**Financial Instruments and Related Risks**".

(e) Cash and Cash Equivalents

Cash and cash equivalents may include cash on hand, term deposits and short-term highly liquid investments with original term to maturity of three months or less which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value. As at December 31, 2008 and 2007, the cash balance did not include term deposits or short-term investments.

(f) Inventories

Inventories consist of finished gold inventory, stockpile ore, gold-in-circuit inventories, and materials and supplies. Inventories are valued at the lower of average production cost and net realizable value.

For stockpile ore and gold-in-circuit inventories, net realizable value is determined taking into account a reasonable allowance for further processing and sales costs. Net realizable value for materials and supplies inventories is determined based on current replacement cost.

When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

(g) Mineral Properties and Related Expenditures

Direct mineral exploration, evaluation and development costs until such time as an economic ore body is defined or the project is abandoned and the estimated fair value of any related asset retirement obligations (Note 3(k)) are capitalized on an individual project basis. Costs for a producing project, net of residual or salvage values, are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for properties abandoned are written off.

The recoverability of the amounts capitalized for undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to mineral properties involves inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, all of its properties are in good standing.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which extend the useful life of an asset, are capitalized. Mine property, plant and machinery, net of residual or salvage value, are amortized over the life of mine by the unit of production method based on proven and probable reserves. Other plant and equipment is depreciated on a straight-line basis, net of residual value, over the estimated useful life of the asset.

(i) Long-lived Assets Impairment Assessments

The Company reviews and evaluates the recoverability of mineral properties and related expenditures, property, plant and equipment at the end of each reporting period and when events and circumstances indicate that an impairment event may have occurred. This evaluation is based on forecasted future net cash flows, on an undiscounted basis, from each mine and development property using estimated recoverable ounces of gold (considering current proven and probable reserves and the portion of mineralization which is expected to become reserves), estimated future gold prices (considering historical and current prices, price trends and related factors), and estimated operating, capital and reclamation costs. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of property, plant and equipment, with a corresponding charge to earnings, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the carrying value.

Estimates of future cash flows are subject to risks and uncertainties and it is reasonably possible that changes in future conditions could occur which may affect the recoverability of property, plant and equipment.

(j) Stripping Costs

Stripping costs in the pre-production phase are capitalized while, after commencement of production, they are accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case stripping costs are capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources

of reserves. Capitalized stripping costs are amortized on a units-of-production basis over the proven and probable reserves to which they relate.

(k) Asset Retirement Obligations

The Company recognizes a liability for material legal or contractual obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required or completed, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

(l) Future Income Taxes

Future income tax assets and liabilities are calculated using the liability method of accounting for all temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Future income tax assets attributable to temporary differences and unused tax losses are recognized only to the extent that it is more likely than not that the asset will be realized. Future income tax assets and liabilities are measured using the enacted or substantially enacted rates and laws that are expected to apply when these assets and liabilities will be either realized or settled.

(m) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair value reduced by an estimate of transaction costs normally incurred when issuing shares for cash.

(n) Revenue Recognition

Revenue is recorded when there is persuasive evidence that an arrangement exists, the selling price is fixed and determinable, collectability is reasonably assured and when title and the risks and rewards of ownership pass to the buyer. Adjustments to these amounts are made after final prices, weights and assays are established.

(o) Stock-Based Compensation

The fair value of stock option grants is recorded as an expense and credited to contributed surplus as the options vest and is subsequently transferred to share capital on exercise of the related option. Stock-based compensation relating to options granted to non-employees is recorded as an expense and the credit recorded to contributed surplus at the earlier of completion of performance or upon vesting of the options granted, using a fair value based method.

(p) Earnings (Loss) Per Share

Earnings (loss) per share is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method which, for purposes of determining the weighted average number of shares outstanding, assumes that the proceeds to be received on the exercise of the stock options and warrants are applied to repurchase common shares at the average market price for the year. When a loss is incurred, basic and diluted loss per share are the same because the inclusion of common share equivalents would be anti-dilutive.

(q) Reclassification of Comparative Numbers

Certain of last year numbers have been reclassified to conform to this year's presentation.

**4. Marketable Securities**

Marketable securities consist of 62,090,407 shares in Mineral Deposits Limited. They are recorded at their fair value of Cdn. \$0.57 per share, calculated based on the December 31, 2008 closing bid price on the Australian Stock Exchange. The Company's original cost of the shares is Cdn. \$0.47 per share (see Note 19(b)).

**5. Inventories**

	December 31,	
	2008	2007
Stockpile ore	\$ 17,190	\$ 13,486
Gold in circuit	2,840	4,829
Gold in safe	2,429	1,092
Materials and supplies	22,673	9,032
	<u>\$ 45,132</u>	<u>\$ 28,439</u>

**6. Property, Plant and Equipment**

	December 31, 2008			December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Plant and equipment	\$ 141,218	\$ 21,035	\$120,183	\$120,427	\$ 8,531	\$111,896
Motor vehicles	2,819	1,801	1,018	2,223	1,317	906
Buildings	13,378	1,116	12,262	2,329	154	2,175
Construction in progress	80,458	-	80,458	10,768	-	10,768
	<u>\$ 237,873</u>	<u>\$ 23,952</u>	<u>\$213,921</u>	<u>\$135,747</u>	<u>\$ 10,002</u>	<u>\$125,745</u>

## 7. Mineral Properties and Related Expenditures

	Chirano	Tasiast	Other Projects	Total
<b>Balance, December 31, 2006</b>	\$ 76,413	\$ -	\$ 4,823	\$ 81,236
Acquisition of Tasiast (Note 8)	-	241,396	-	241,396
Exploration and evaluation costs	8,766	-	1,847	10,613
Development expenditure	-	1,714	-	1,714
Change in estimated asset retirement obligations	151	1,011	-	1,162
Pre-production costs	-	15,331	-	15,331
Pre-production revenue	-	(16,280)	-	(16,280)
Amortization	(5,767)	-	-	(5,767)
<b>Balance, December 31, 2007</b>	\$ 79,563	\$ 243,172	\$ 6,670	\$ 329,405
Exploration and evaluation costs	12,338	13,139	285	25,762
Development expenditure	42,442	8,978	-	51,420
Change in estimated asset retirement obligations	-	207	-	207
Amortization	(8,327)	(21,716)	-	(30,043)
Write-off of deferred exploration costs	-	-	(849)	(849)
<b>Balance, December 31, 2008</b>	\$ 126,016	\$ 243,780	\$ 6,106	\$ 375,902

Included in the above balance for Chirano are \$7,879,000 (December 31, 2007: nil) of stripping costs incurred subsequent to commencement of production.

### *Chirano Gold Mine*

The Chirano Gold Mine comprises one mining lease and one prospecting license held through the Company's 100% subsidiary, CGML. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of CGML, at no cost, the Company will hold a 90% interest in CGML with the Government of Ghana holding 10%.

### *Tasiast Gold Mine*

As more fully described in Note 8 below, the Company acquired Tasiast on August 2, 2007. Tasiast comprises one mining lease held through the Company's 100% owned subsidiary Tasiast Mauritanie Limited SA ("TMLSA").

### *Other Exploration Projects*

The Company owns interests in a number of other exploration properties in Ghana, Mauritania and Côte d'Ivoire. These interests are represented by various prospecting licenses and option agreements. During the year, the Company wrote off \$849,000 of previously deferred exploration costs relating to properties whose interest was relinquished.

## 8. Acquisition of the Tasiast Gold Mine

On August 2, 2007, the Company completed the acquisition of Tasiast in Mauritania, West Africa, from Lundin Mining Corporation through the purchase of all of the common shares of TMLSA and Tasiast Mauritanie Limited ("TML"). The Tasiast project is comprised of Tasiast, held by TMLSA, and a number of prospective exploration licenses held by TML. Total funds disbursed under the acquisition were \$276 million. The transaction has been accounted for as an asset purchase and details of the determination of fair value of the net assets acquired are as follows:

	<u>Tasiast's Net Assets</u>
Cash	\$ 9,838
Accounts receivable	866
Inventories	6,417
Property, plant and equipment	82,486
Mineral properties and related expenditures	241,396
Accounts payable	(10,848)
Asset retirement obligations	(1,005)
Future income taxes (Note 15)	(52,892)
	<u>\$ 276,258</u>

## 9. Bank Loan

The bank loan is collateralized by marketable securities and guarantees from its two operating subsidiaries, CGML and TMLSA. Interest is payable at LIBOR plus 2.50% to December 31, 2008 (2.75% to March 31, 2009 and 3.00% thereafter) (see Note 19(b)).

## 10. Asset Retirement Obligations

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. The Company's provisions for future site closure and reclamation costs are based on known requirements at the present time. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

	Year Ended December 31, 2008			Year Ended
	Chirano	Tasiast	Total	December 31, 2007
<b>Balance, beginning of year</b>	\$ 6,928	\$ 2,216	\$ 9,144	\$ 6,424
Assumed on acquisition	-	-	-	1,005
Change in estimate	-	207	207	1,162
Incurred in the year	(86)	-	(86)	-
Accretion expense	381	122	503	553
<b>Balance, end of year</b>	<u>\$ 7,223</u>	<u>\$ 2,545</u>	<u>\$ 9,768</u>	<u>\$ 9,144</u>

The Company has calculated the fair value of the asset retirement obligation using a discount rate of 5.5%. During 2007, accretion expense at Tasiast was included in pre-production capitalized costs.

The estimated total future undiscounted cash flows to settle the asset retirement obligations are \$11.4 and \$4.1 million (December 31, 2007: \$11.4 and \$3.4 million) for Chirano and Tasiast, respectively, incurred over approximately ten to twelve years.

## 11. Share Capital

(a) The authorized and issued share capital is as follows:

Authorized:

Unlimited common shares without par value

Shares Issued and Outstanding:	Number of Shares		Amount	
	Year ended December 31,		2008	2007
	2008	2007	2008	2007
<b>Balance, beginning of year</b>	187,814,970	97,740,946	\$ 556,920	\$ 101,849
Issued by short-form prospectus (i)	17,150,000	16,667,200	45,804	107,820
Conversion of special warrants (ii)	-	13,888,800	-	65,033
Conversion of subscription receipts (ii)	-	55,555,200	-	270,921
Issued as a share donation (iii)	-	79,491	-	512
Issued on exercise of warrants	-	1,975,000	-	3,632
Issued on exercise of options	1,131,000	1,908,333	3,551	3,792
Fair value of options and warrants exercised (iv)	-	-	1,639	3,361
<b>Balance, end of year</b>	<b>206,095,970</b>	<b>187,814,970</b>	<b>\$ 607,914</b>	<b>\$ 556,920</b>

- (i) On December 11, 2008, the Company raised gross proceeds of \$48.6 million (Cdn. \$60 million) by issuing 17,150,000 common shares at a price of Cdn. \$3.50 per share under a short form prospectus financing.

On October 31, 2007, the Company raised gross proceeds of \$112.9 million (Cdn. \$110 million) by issuing 16,667,200 common shares at a price of Cdn. \$6.60 per share under a short form prospectus financing. The net proceeds from the offering were applied to pay the balance of the Company's loan (\$17 million) and net settle the related gold hedge forward contracts (\$95 million).

- (ii) On May 10, 2007 the Company closed a private placement of 69,444,000 units of the Company at a price Cdn. \$5.40 per unit raising gross proceeds of approximately Cdn. \$375 million. Each unit consisted of 0.2 special warrants (the "Special Warrants") and 0.8 subscription receipts (the "Subscription Receipts") of the Company.

The net proceeds from the sale of the Special Warrants in the amount of approximately \$65 million, being 20% of the offering, less expenses, were released to the Company during the quarter ended June 30, 2007.

The net proceeds of the sale of the Subscription Receipts in the amount of approximately \$271 million were deposited with an escrow agent and released to the Company upon closing of the acquisition of Tasiast on August 2, 2007 (see Note 8). The Special Warrants and Subscription Receipts were converted into a total of 69,444,000 common shares on August 2, 2007.

- (iii) On December 27, 2007, the Company donated 79,491 common shares out of treasury at a total deemed fair value of approximately Cdn. \$500,000.
- (iv) Upon exercise of options and warrants the pro-rata carrying value is recognized in share capital and the contributed surplus is reduced accordingly.

Share issue costs under the short form prospectus financing completed during the year ended December 31, 2008 totaled \$3.4 million (2007: \$17.6 million).

- (b) Under the Company's stock option plan (the "Plan"), 12 million common shares have been made available for the Company to grant incentive stock options to directors, officers, employees and consultants of the Company. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed 10 years from the date of grant. No optionee shall be entitled to a grant of more than 10% of the Company's outstanding issued shares. The vesting of options is at the discretion of the Board.

A summary of outstanding incentive stock options as at December 31, 2008 is as follows:

Range of exercise prices	Number of outstanding options	Weighted average		Exercisable options	
		exercise price (Cdn. \$)	remaining contractual life	Number of outstanding options	Weighted average exercise price (Cdn. \$)
\$2.67 to \$4.33	1,275,000	\$3.38	0.6 year	1,275,000	\$3.38
\$5.40 to \$6.25	2,905,000	\$6.03	1.7 years	2,480,000	\$6.05
\$6.40 to \$7.99	3,199,000	\$6.64	2.5 years	2,052,333	\$6.59
	<u>7,379,000</u>	\$5.84	1.9 years	<u>5,807,333</u>	\$5.65

Changes in issued and outstanding options during the current and immediately preceding year were as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
	Options outstanding and exercisable	Weighted average exercise price (Cdn. \$)	Options outstanding and exercisable	Weighted average exercise price (Cdn. \$)
<b>Balance, beginning of year</b>	7,595,000	5.34	3,463,333	2.34
Granted	1,340,000	7.03	6,040,000	6.05
Forfeited	(425,000)	7.09	-	-
Exercised	(1,131,000)	3.42	(1,908,333)	2.14
<b>Balance, end of year</b>	<u>7,379,000</u>	5.84	<u>7,595,000</u>	5.34

The fair value of stock options has been recorded in the accounts of the Company as stock-based compensation expense with a corresponding increase in contributed surplus. In preparing the fair value estimates for the year, the Company used the Black-Scholes option pricing model, and assumed a risk-free rate of between 1.8% and 3.0% (2007: 3.4% to 4.5%), an expected volatility of between 36% and 53% (2007: 33% to 50%), an expected option life of between two and four years, and no dividend payments.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimated.

## 12. Contributed Surplus

	Year Ended December 31,	
	2008	2007
<b>Balance, beginning of year</b>	\$ 8,146	\$ 5,405
Fair value of stock-based compensation	3,999	6,102
Fair value of warrants exercised	-	(1,312)
Fair value of options exercised	(1,639)	(2,049)
<b>Balance, end of year</b>	<b>\$ 10,506</b>	<b>\$ 8,146</b>

## 13. Accumulated Other Comprehensive Income

	Year Ended December 31,	
	2008	2007
<b>Balance, beginning of year</b>	\$ 8,576	\$ (84)
Foreign exchange gain recognized due to the decrease in in net assets denominated in other than US dollars	(5,659)	-
Other comprehensive income	(1,025)	8,660
<b>Balance, end of year</b>	<b>\$ 1,892</b>	<b>\$ 8,576</b>

## 14. Related Party Transactions

Transactions for the years ended December 31, 2008 and 2007 and year end balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$0.5 million (2007: \$0.5 million) for management services provided by a company related to the President of the Company. At December 31, 2008 and 2007, \$nil was due to this company.
- (b) Paid \$0.01 million (2007: \$0.02 million) to a firm related to a director for legal services. At December 31, 2008 and 2007, \$0.01 million was due to this firm.
- (c) Paid \$0.47 million (2007: \$0.28 million) to a company controlled by a director for management services. At December 31, 2008 and 2007, \$nil was due to this company.
- (d) In 2007 received \$0.56 million from the sale of a single gold bar to a director at the then prevailing spot market price of gold.

## 15. Income Taxes

The estimation of the Company future tax assets and liabilities involves significant judgement around a number of assumptions. Judgement must be used to determine the Company's future earning potential, and the expected timing of the reversal of future tax assets and liabilities. Further uncertainties are the result of interpretation of tax legislation in a number of jurisdictions which might differ from the ultimate assessment of the tax authorities. These differences may affect the final amount or the timing of the payment of taxes.

Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts recognized for income tax purposes. The significant components of the Company's estimated future income tax assets and liabilities are as follows:

	December 31,	
	2008	2007
Future income tax assets:		
Non-capital loss carry-forwards	\$ 9,112	\$ 8,747
Capital assets	4,961	1,625
Deferred expenditures	17,143	21,911
Share issuance costs	2,945	4,669
	<u>34,161</u>	<u>36,952</u>
Valuation allowance	(25,188)	(32,944)
	8,973	4,008
Future income tax liabilities:		
Capital assets	(8,241)	(4,008)
Marketable securities	(732)	-
Acquisition of Tasiast	(49,117)	(52,892)
	<u>\$ (49,117)</u>	<u>\$ (52,892)</u>

The non-capital loss carry-forwards have expiry dates ranging between 2010 and 2028.

The future income tax liability of \$49.1 million (December 31, 2007: \$52.9 million) relates to the excess of the fair value of Tasiast's net assets over their tax costs, which has been substantially allocated to mineral properties. As the future amortization of this asset for accounting purposes will exceed the equivalent tax deduction, the Company recorded the future tax liability relating to this difference at time of acquisition in 2007.

Income tax expense differs from the amount that would result from applying the weighted average group statutory tax rates to income (loss) before income taxes. These differences are presented in the following table.

	Year Ended December 31,	
	2008	2007
<b>Net income (loss) before income taxes</b>	<u>\$ 57,394</u>	<u>\$ (91,904)</u>
Tax at the applicable rate of 24.8% (2007: 25.6%)	\$ 14,234	\$ (23,564)
Non-taxable income	(17,657)	(1,109)
Unrecognized benefit of current year's losses	1,444	22,592
Benefit of previously unrecognized items	(8,140)	-
Non-deductible expenses	5,612	2,081
<b>Income tax expense (recovery)</b>	<u>\$ (4,507)</u>	<u>\$ -</u>

## 16. Segmented Information

The Company operates only in the gold sector. In 2007, the Company acquired a second mining property, Tasiast in Mauritania (see Note 8). Tasiast was in the commissioning phase during 2007.

	Year Ended December 31, 2008			
	Ghana	Mauritania	Others	Total
Gold revenues	\$ 104,965	\$ 118,695	\$ -	\$ 223,660
Operating costs and expenses	(60,653)	(56,594)	-	(117,247)
Depreciation, amortization and accretion	(13,065)	(31,410)	-	(44,475)
Write off of exploration costs	(849)	-	-	(849)
Profit from mining operations	30,398	30,691	-	61,089
Other income (costs)	(136)	3,712	(2,764)	812
Net income (loss)	\$ 30,262	\$ 34,403	\$ (2,764)	\$ 61,901

	Year Ended December 31, 2007			
	Ghana	Mauritania	Others	Total
Gold revenues	\$ 73,497	\$ -	\$ -	\$ 73,497
Operating costs and expenses	(49,951)	-	-	(49,951)
Depreciation, amortization and accretion	(10,848)	-	-	(10,848)
Profit from mining operations	12,698	-	-	12,698
Other costs	(2,220)	(2,627)	(5,052)	(9,899)
Settlement of gold forward contracts	(94,703)	-	-	(94,703)
Net income (loss)	\$ (84,225)	\$ (2,627)	\$ (5,052)	\$ (91,904)

	As at December 31, 2008			
	Ghana	Mauritania	Others	Total
Current assets	\$ 36,430	\$ 30,171	\$ 45,278	\$ 111,879
Capital assets, net of depreciation and amortization	200,886	388,541	396	589,823
	237,316	418,712	45,674	701,702
Current liabilities	(18,051)	(15,812)	(30,974)	(64,837)
Non-current liabilities	(7,223)	(2,545)	-	(9,768)
Future income tax liabilities	-	(49,117)	-	(49,117)
	\$ 212,042	\$ 351,238	\$ 14,700	\$ 577,980

	As at December 31, 2007			Total
	Ghana	Mauritania	Others	
Current assets	\$ 26,572	\$ 21,262	\$ 54,150	\$ 101,984
Capital assets, net of depreciation and amortization	122,182	332,921	47	455,150
	148,754	354,183	54,197	557,134
Current liabilities	(7,809)	(16,811)	(1,069)	(25,689)
Non-current liabilities	(6,928)	(2,216)	-	(9,144)
Future income tax liabilities	-	(52,892)	-	(52,892)
	\$ 134,017	\$ 282,264	\$ 53,128	\$ 469,409

	Additions to Property Plant and Equipment			Total
	Ghana	Mauritania	Others	
Year ended December 31, 2008	\$ 37,578	\$ 64,548	\$ -	\$ 102,126
Year ended December 31, 2007	\$ 12,087	\$ 89,902	\$ -	\$ 101,989

## 17. Commitments

As at December 31, 2008, the Company had purchase commitments totaling approximately \$16.3 million (December 31, 2007: \$11 million) for long-lead capital items required under expansion projects at both Chirano and Tasiast.

## 18. Management of Capital

The Company's objectives in managing its capital resources are to safeguard the entity's ability to continue as a going concern and, thereby, maximize returns to shareholders in the context of the market. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevailing economic conditions of both the industry and the capital markets and the underlying risks characteristics of the related assets.

Red Back is currently undertaking capital expansion programs at its two mining operations. The Company has been funding these programs from operating cash flow, existing treasury and, more recently, an equity financing. Management is also finalizing a corporate bank debt facility to provide it with additional flexibility in modifying its expansion plans, if required, or responding to new opportunities.

The Company is not currently subject to any externally imposed requirements on its shareholders' equity and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2008.

## **19. Subsequent Events**

Subsequent to December 31, 2008, the Company:

- (a) raised gross proceeds of Cdn. \$165 million by issuing 22,000,000 common shares at a price of Cdn. \$7.50 per share under a short-form prospectus financing; and
- (b) disposed of its investment in marketable securities (see Note 4) and repaid the related bank loan (see Note 9).

**RED BACK MINING INC.  
CORPORATE DIRECTORY**

**OFFICERS**

Richard Clark  
President and Chief Executive Officer  
Lukas Lundin  
Chairman of the Board  
Alessandro Bitelli  
Chief Financial Officer  
Simon Jackson  
Vice President – Corporate Development  
Kevin Ross  
Chief Operating Officer  
Hugh Stuart  
Vice President - Exploration  
Kathy Love  
Corporate Secretary

**DIRECTORS**

Richard Clark  
Lukas Lundin  
Compensation Committee  
Michael Hunt  
Corporate Governance and Nominating  
Committee  
Harry Michael  
Audit Committee  
Robert Chase  
Audit Committee  
Corporate Governance and Nominating  
Committee  
Compensation Committee  
Brian Edgar  
Lead Director  
Audit Committee  
Compensation Committee  
Corporate Governance and Nominating  
Committee

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**REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada  
Vancouver, British Columbia and  
Toronto, Ontario  
Canada

**SHARE LISTING**

Toronto Stock Exchange  
Symbol: RBI  
CUSIP No.: 756297107  
S.E.C.: 12g3-2(b)  
Exemption Number: 82-4286