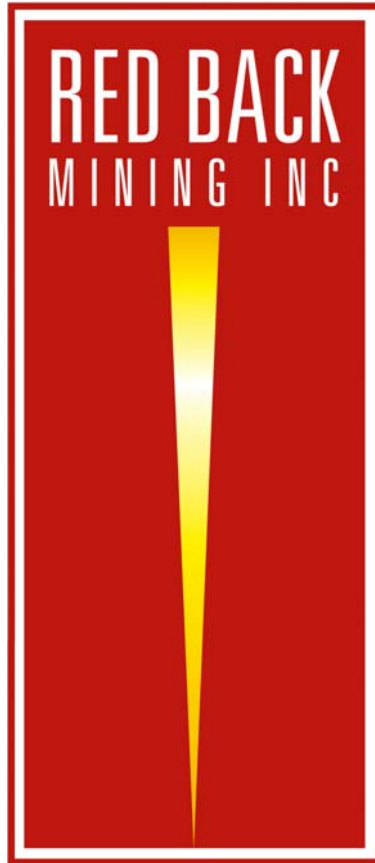


# **RED BACK MINING INC.**



## **Third Quarter Report**

**September 30, 2008**

**RED BACK MINING INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

The following 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 unaudited consolidated financial statements for the three and nine month period ended September 30, 2008 and related notes thereto. The financial information in this MD&A 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 October 31, 2008. 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 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 Chirano Gold Mine ("Chirano"). The Government of Ghana can exercise its right to back-in to a 10% ownership of Chirano Gold Mines Limited ("CGML"), at no cost, at which time the Company will hold a 90% interest in Chirano. In Mauritania, the Company holds a 100% interest in the Tasiast Gold Mine ("Tasiast"). Tasiast was acquired in August 2007 and commenced commercial production at the beginning of 2008. In addition to government royalties, Tasiast is subject to a 2% royalty on gold production in excess of 600,000 oz. Red Back also holds various other exploration properties in Ghana, Mauritania and Côte D' Ivoire.

## **Highlights**

The Company's highlights for the third quarter were:

- Total gold production of 60,003 oz (year-to-date, 188,181 oz), in line with forecast for the year.
- Average realized gold price of \$853 per oz (year-to-date, \$895 per oz) based on 63,504 oz of gold sold in quarter (year-to-date, 188,781 oz).
- Net income of \$10.6 million (year-to-date, \$53.9 million).
- Average monthly cash flow from operations, before changes in working capital, of \$6.9 million (year-to-date, \$8.6 million).
- Cash operating costs of \$485 per oz (year-to-date, \$441 per oz).
- Chirano and Tasiast plant expansions remain on target for commissioning in the first quarter of 2009.
- Akwaaba Deeps underground development remains on schedule with first delivery of ore to the mill in the fourth quarter of 2008.
- Commencement of construction of commercial dump leach pad at Tasiast.
- Purchase of a 12.8% interest in Mineral Deposits Limited, a Australian resource company with assets in Senegal, West Africa.

Red Back expects to produce approximately 255,000 oz of gold from its two operating mines in 2008, 4% more than originally forecast, at an average cash operating cost of approximately \$450 per oz.

The results in the third quarter of 2008 continue to reflect the Company's strong operating performance notwithstanding a decrease in the gold price in the third quarter. To date, the Company's operating cash flows and working capital position have supported the underground development of Akwaaba Deeps at Chirano and expansions of both the Chirano and Tasiast production plants. Management is engaged in negotiations to establish a corporate bank debt facility which would provide Red Back with greater flexibility in its capital plans or in responding to new opportunities.

## Results of Operations

Net income for the three and nine months ended September 30, 2008 were \$10.6 and \$53.9 million respectively (September 30, 2007: \$0.7 million and loss of \$1.9 million). The significantly improved results from operations compared to the previous year are mainly attributable to:

- Tasiast's contributions to revenues (year-to-date, \$86.6 million) and operating profits (year-to-date \$21.7 million) in 2008;
- a 68% increase in realized revenue per ounce 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. 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 December 31, 2007.

Summary of Financial Results								
Quarter	Sep 08	Jun 08	Mar 08	Dec 07	Sep 07	Jun 07	Mar 07	Dec 06
Total revenue (\$'000)	54,200	60,396	54,414	26,220	17,303	13,760	16,214	20,731
Net income (loss) (\$'000)	10,568	23,485	19,864	(89,989)	742	(1,180)	(1,477)	375
Net income (loss) per share (\$)	0.06	0.12	0.11	(0.49)	0.01	(0.01)	(0.02)	0.00

Compared to the previous two quarters of 2008, total revenue and net income in the third quarter was affected by a 6-8% reduction in the gold price. In addition, net income in the first and second quarter included a gain on sale of marketable securities (\$1.7 million) and a realized foreign exchange gain (\$5.6 million) respectively.

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

	Three months ended September 30, 2008			Nine months ended September 30, 2008			Three months ended September 30, 2007 (Note 1)	
	Chirano	Tasiast	Total	Chirano	Tasiast	Total		
Ore tonnes mined	703,614	527,277	1,230,891	2,245,582	1,406,022	3,651,604	699,640	1,820,181
Ore tonnes milled	526,182	393,642	919,824	1,665,999	1,091,524	2,757,523	510,660	1,489,708
Average grade (g/t)	1.64	2.87	2.17	1.82	2.99	2.29	2.26	2.13
Average recovery	92.8%	94.2%	93.4%	91.7%	94.1%	92.7%	90.3%	89.8%
Gold produced (oz)	25,752	34,251	60,003	89,447	98,734	188,181	33,763	94,669
Gold sold (oz)	27,142	36,362	63,504	91,507	97,274	188,781	33,819	92,489
Realized gold price per oz	\$860	\$849	\$853	\$901	\$890	\$895	\$512	\$511
Cash costs per oz (Note 2)								
Operating	\$596	\$403	\$485	\$472	\$412	\$441	\$360	\$376
Royalty	\$ 14	\$ 25	\$ 21	\$ 26	\$ 27	\$ 26	\$ 15	\$ 16
Depreciation and amortization per oz (Note 2)	\$ 94	\$213	\$162	\$ 96	\$228	\$164	\$ 79	\$ 78

Note 1: Chirano operations only. Tasiast, acquired on August 2, 2007, achieved commercial production at the beginning of 2008.

Note 2: This is a non-GAAP measure. It is calculated by dividing costs on the statement of income and deficit by gold ounces sold. For Tasiast, approximately \$133 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.

### Chirano gold mine, Ghana

The Chirano mining lease, granted in April 2004, is situated in southwestern Ghana, 100 kilometres southwest of Kumasi, which is Ghana's second largest city. The project is within the Bibiani gold belt along strike to the south of the Bibiani gold mine. It is currently comprised of eleven deposits: Akwaaba, Suraw, Akoti South, Akoti North, Akoti Extended, Paboose, Tano, Obra South, Obra, Sariehu and Mamnao. Gold mineralisation continues at depth below the current open pit designs at many of the deposits currently included in the mine plan. Drilling at Akwaaba in 2007 established a high grade underground resource which is now being developed as an underground operation.

The underground development of Akwaaba Deeps is well underway, with work on the decline having reached 430 m as at October 30, 2008. First development ore from Akwaaba Deeps is expected to be delivered to the mill before the end of 2008. Chirano's 2008 gold production is currently estimated at approximately 120,000 oz, increasing to 250,000 oz in 2010.

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 expanded plant is expected to commence in the first quarter of 2009.

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

- the average spot gold price increased by over 20% during the current twelve month period; and
- in the first nine months of 2007, 66% of gold sales were delivered into fixed-price forward sales contracts. The Company settled these contracts in the fourth quarter of 2007 to take full advantage of the strong gold price going forward.

Chirano's cash operating costs per oz for the three and nine months ended September 30, 2008 are \$596 and \$472 compared to \$360 and \$376 for the same periods in 2007. The cash costs in the third quarter were much higher than originally anticipated due principally to three factors. First, the government of Ghana increased the cost of electricity by more than 100% on July 1 in response to higher energy costs. Second, auxiliary portable crushing continues to be necessary to address the hardness of the pit ore. This extra cost will cease upon completion of the new crushing facility in late 2008. 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 in 2009. Cash costs are expected to remain higher than originally forecast for the balance of the year until the new crushing circuit becomes operational and mining of ore from Akwaaba Deeps commences. On an annual basis, Red Back expects Chirano's 2008 cash operating costs per ounce to average approximately \$495 per oz.

### 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 northwestern part of the country, approximately 300 km 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 Archaen age, Aoueuat greenstone belt, which is geologically similar to other Archaen 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 km strike length, and the West Branch, which has been defined by soil sampling, trenching and drilling over a one kilometer 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 mineralisation.

Current drilling at Piment is expected to add and convert further resources and will test the potential of the newly defined Piment Footwall Zone. Drilling at the West Branch Prospect, 2 km south of the Tasiast plant site, is designed to expand and convert the current resource at that deposit.

Tasiast reached name plate plant production very late in December 2007 with the installation of a new primary crusher. Commercial production was achieved at the beginning of 2008. Tasiast is now expected to produce approximately 135,000 oz of gold in 2008, its first year of operation.

Gold production is sold at spot prices. Cash operating costs per oz at Tasiast for the three and nine months ended September 30, 2008 were \$403 and \$412 respectively. Diesel costs were high in the quarter as the Mauritanian government, which regulates the country's oil price, made adjustments in light of market conditions. Notwithstanding higher material and fuel costs to date, Red Back anticipates that operating costs will decrease in the fourth quarter reflecting a decline in commodity prices, particularly oil, and the conversion of mining operations to owner-mining. Costs will be further positively affected by the completion of modifications to the heavy fuel oil ("HFO") power generation plant resulting in full operation of the HFO plant. On an annual basis, Red Back expects Tasiast's 2008 cash operating costs per ounce to approximate \$400 per oz.

Red Back is proceeding with expanding the Tasiast processing facility to increase production to approximately 2.5 mtpa. Commissioning of this facility is expected in the first quarter of 2009. Upon completion of the expansion, Tasiast is forecast to produce 250,000 oz of gold per annum from 2010.

The Tasiast resource contains significant quantities of lower grade material. Test leaching work undertaken over the last few months indicates that conventional "dump" leaching may be commercially viable. Low grade material is now being 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 the irrigation of the pad in 2009. Work is underway to update the reserve calculations at Tasiast to include the lower grade ore to be processed by dump leaching.

#### Other income statement items

Interest expense in the third quarter of 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 interest income for the three and nine months ended September 30, 2008 is lower compared to the same periods in 2007 because of the lower cash balance on hand.

General and administrative costs for the three and nine months ended September 30, 2008 are lower compared with costs incurred in the same period in 2007 because the third quarter of 2007 reflected the additional costs incurred as a result of the successful acquisition and financing of Tasiast.

Stock-based remuneration 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.

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 September 30, 2008, the subsidiary had an accumulated deficit of approximately \$51 million and, therefore, no minority interest has been recognized.

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:

- the Tasiast mineral properties amount recorded in the consolidated financial statements is higher than its tax costs. As a result, the amortization of this asset for accounting purposes exceeds the equivalent tax deduction. Under Canadian generally accepted accounting principles, the Company recorded the future tax liability relating to this difference at the time of the Tasiast acquisition. An income tax recovery of \$1.1 and \$3.3 million reflects the proportional reduction of the future income tax liability relating to the amortization of this difference during the three and nine months ended September 30, 2008; and
- the recognition of a \$0.8 million future tax benefit of losses carry forward for tax purposes to offset the potential future tax liability arising from the unrealized gain on marketable securities as at September 30, 2008.

Other comprehensive income reflects the unrealized gain on marketable securities held as at September 30, 2008, net of its related future tax liability, and the effect of exchange rate changes on translation of cash measured in a currency other than the US dollar.

## Liquidity and Capital Resources

At September 30, 2008 the Company had working capital of \$39.2 million as compared to \$76.3 million at December 31, 2007. During the third quarter, Red Back continued to reduce its existing cash resources to supplement the cash flow from operations to fund the capital projects at Tasiast and Chirano.

Capital costs during the first nine months of the year can be summarized as follows:

<i>(Amounts in millions of dollars)</i>	<b>Chirano</b>	<b>Tasiast</b>	<b>Total</b>
2008/09 plant expansion projects	\$ 16.9	\$ 19.9	\$ 36.8
Mining fleet	-	18.0	18.0
Heavy oil fuel plant	-	4.6	4.6
Back-up diesel generator unit	2.9	-	2.9
Sustaining capital	2.9	3.3	6.2
Total	\$ 22.7	\$ 45.8	\$ 68.5

Additions to exploration and development costs totalling \$54.6 million are attributable to:

- the underground development activities at Akwaaaba Deeps at Chirano (\$14.4 million);
- ongoing discretionary exploration to identify new resources (\$12.8 million at Chirano and \$9.1 million at Tasiast);
- open pit cut backs and haul road construction costs to provide access to additional ore reserves at Chirano (\$10.2 million);
- planned expansion of the tailings dam at Chirano (\$2.7 million);
- 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); and
- final costs relating to the original development, construction and commissioning of the Tasiast mine (\$2.4 million).

All of the above costs are being amortized as the related reserves are depleted.

Red Back continues to estimate the 2008 capital expenditures for its two plant expansion projects at Chirano and Tasiast to be approximately \$25 and \$35 million respectively, with the balance of the project costs to be incurred in 2009. Underground development costs for Akwaaba in 2008 are estimated at \$18 million. The overall capital investment required for the two plant expansions and the underground development of Akwaaba (the latter to be incurred over approximately four years) is unchanged from its original estimate of approximately \$155 million. Cost increases for the plant expansions are offset by reductions due to design efficiencies gained at Akwaaba.

As at September 30, 2008, the Company had purchase commitments totalling \$23.2 million for capital items required for the expansion projects.

During the month of September, 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 is secured by the MDL shares and guarantees from CGML and TMLSA and is repayable in one year. Interest on the loan is charged at LIBOR plus 2.50% to December 31, 2008 (2.75% to March 31, 2009 and 3% thereafter). In addition, the Company is also engaged in negotiations to establish a corporate bank debt facility which would provide Red Back with flexibility in satisfying capital requirements for its expansion plans and responding to new corporate opportunities.

A total of 871,000 shares were issued during the first nine months of 2008 as a result of the exercise of options for cash proceeds of \$2.7 million.

### **Transactions with Related Parties**

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

- paid \$0.3 million (2007: \$0.2 million) for management services provided by a company related to the President of the Company;
- paid \$11,000 (2007: \$20,000) to a firm related to a director for legal services; and
- paid \$0.3 million (2007: \$0.2 million) to a company controlled by a director for management services.

### **Critical Accounting Estimates**

There have been no material changes to the critical accounting estimates discussed in the annual MD&A filed on SEDAR on March 28, 2008.

### **Significant Accounting Policies**

The Company continues to follow the accounting policies described in the audited consolidated financial statements for the year ended December 31, 2007 that was filed on SEDAR on March 28, 2008. In addition, 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 risks characteristics of the related assets.

Red Back is currently undertaking capital expansion programs at its two mining operations. To date, the Company's working capital position and cash flow from operations has been sufficient to satisfy the related 2008 financial costs. Management is also engaged in negotiations to establish 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 capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended September 30, 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 used 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.

#### 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 standards ("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 is completing 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. The completion of this initial diagnostic step will allow the Company to estimate the extent of time and resources required to affect the transition to IFRS and the related impact on its financial statements, and its business and systems, if any.

## **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 financial assets available for sale, 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 September 30, 2008 and December 31, 2007 did not include term deposits or short-term investments.

Marketable securities are comprised of shares traded on a stock exchange and are very sensitive to price fluctuations. A 10% change in price would give rise to an increase/decrease in other comprehensive income of approximately \$3.4 million.

The Company's currency risk is presently limited to \$4.6 million (\$35.8 million at December 31, 2007) of cash balances and to marketable securities denominated in Canadian dollars. Based on this exposure as at September 30, 2008, a 5% change in the Canadian/US dollar exchange rate would give rise to an increase/decrease in other comprehensive income of approximately \$2.0 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.

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

- engage in derivative commodity transactions;
- hold interest-bearing assets or debt instruments whose fair values fluctuate as a result of changes in the market interest rates; and
- have large loans and receivables with third parties requiring a review of credit worthiness.

## **Outstanding Share Data**

As at October 31, 2008, the Company had 188,685,970 common shares issued and outstanding and 7,664,000 share options outstanding under its stock-based incentive plan.

## **Uncertainties and Risk Factors**

There have been no material changes in the uncertainties and risk factors affecting Red Back's activities that were discussed in the annual MD&A filed on SEDAR on March 28, 2008.

## **Outlook**

Except for increases in the reserve estimates at both Chirano and Tasiast earlier in the year, there have not been other significant changes in the business outlook of the Company discussed in the annual MD&A filed on SEDAR on March 28, 2008.

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

Management is responsible for the design of internal controls over financial reporting 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 believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

There have been no changes in Red Back's internal controls over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers.

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

Certain statements contained in this document constitute forward-looking statements. Such forward-looking statements involve a number of 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 such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set above.

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

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 15,764	\$ 62,830
Accounts receivable	11,171	10,284
Marketable securities (Note 3)	34,415	-
Inventories (Note 4)	36,151	28,439
Prepaid expenses	4,740	431
	102,241	101,984
Property, plant and equipment, net (Note 5)	86,071	19,070
Mineral properties and related expenditures (Note 6)	462,493	436,080
	\$ 650,805	\$ 557,134
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 35,074	\$ 25,689
Bank loan (Note 7)	28,000	-
	63,074	25,689
Non current liabilities		
Asset retirement obligations (Note 8)	9,388	9,144
Future income tax liability	49,668	52,892
	59,056	62,036
Shareholders' equity		
Share capital (Note 9)	560,945	556,920
Contributed surplus (Note 10)	10,718	8,146
Accumulated other comprehensive income (Note 11)	7,328	8,576
Deficit	(50,316)	(104,233)
	528,675	469,409
	\$ 650,805	\$ 557,134
Commitments (Note 14)		

**Approved by the Board:**

**"Richard P. Clark"**  
**Director**

**"Lukas H. Lundin"**  
**Director**

See accompanying notes to interim consolidated financial statements

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Gold Sales	\$ 54,200	\$ 17,303	\$ 169,010	\$ 47,277
Costs and expenses				
Operating	30,817	12,179	83,242	34,825
Depreciation and amortization	10,305	2,686	30,962	7,212
Accretion	74	90	283	270
Royalties	1,315	493	4,994	1,575
Profit from operations	11,689	1,855	49,529	3,395
Interest expense and bank charges	291	473	291	1,381
Depreciation	4	27	16	56
General and administrative	1,341	3,535	3,786	6,341
Stock based compensation	1,550	3,152	3,851	3,980
Interest income	(129)	(1,196)	(908)	(1,440)
	3,057	5,991	7,036	10,318
Income (loss) for period before undernoted items	8,632	(4,136)	42,493	(6,923)
Gain on sale of securities	-	4,965	1,708	4,965
Foreign exchange gain (Note 11)	-	-	5,659	-
Minority interest	-	(87)	-	43
	-	4,878	7,367	5,008
Income (loss) before income taxes	8,632	742	49,860	(1,915)
Income tax recovery	1,936	-	4,057	-
Net income (loss) for the period	10,568	742	53,917	(1,915)
Deficit, beginning of the period	(60,884)	(14,986)	(104,233)	(12,329)
Deficit, end of the period	\$ (50,316)	\$ (14,244)	\$ (50,316)	\$ (14,244)
Income (loss) per common share – basic	\$ 0.06	\$ 0.01	\$ 0.29	\$ (0.02)
Income (loss) per common share – diluted	\$ 0.06	\$ 0.01	\$ 0.28	\$ (0.02)
Weighted average number of shares outstanding – basic	188,629,443	146,384,625	188,359,428	114,460,264
Weighted average number of shares outstanding – diluted	190,034,656	147,643,686	190,131,792	114,460,264

See accompanying notes to interim consolidated financial statements

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Income (loss) for the period	\$ 10,568	\$ 742	\$ 53,917	\$ (1,915)
Items not affecting cash				
Amortization and depreciation	10,309	2,712	30,978	7,267
Accretion	74	90	283	270
Future income taxes	(1,936)	-	(4,057)	-
Gain on sale of marketable securities	-	-	(1,708)	(4,965)
Foreign exchange gain	-	-	(5,659)	-
Minority Interest	-	87	-	(43)
Stock based compensation	1,550	3,152	3,851	3,980
	<u>20,565</u>	<u>6,783</u>	<u>77,605</u>	<u>4,594</u>
Net changes in non-cash working capital items				
Accounts receivable and prepaid expenses	(3,974)	1,457	(5,196)	4,962
Inventories	(4,950)	(8,887)	(7,712)	(8,005)
Accounts payable and accrued liabilities	6,833	(1,095)	7,371	(5,980)
	<u>18,474</u>	<u>(1,742)</u>	<u>72,068</u>	<u>(4,429)</u>
Cash flows used in investing activities				
Mineral properties and related expenditures	(25,427)	(2,554)	(52,633)	(8,929)
Purchase of property, plant & equipment	(24,244)	(1,303)	(69,784)	(3,073)
Purchase of marketable securities	(27,581)	-	(31,648)	(47,677)
Proceeds from sale of marketable securities	-	-	5,775	52,642
Acquisition of Tasiast project, net of cash acquired	-	(266,420)	-	(266,420)
	<u>(77,252)</u>	<u>(270,277)</u>	<u>(148,290)</u>	<u>(273,457)</u>
Cash flows from (used in) financing activities				
Common shares issued	1,323	273,895	2,746	342,791
Debt issue (repayments)	28,000	(2,775)	28,000	(6,750)
	<u>29,323</u>	<u>271,120</u>	<u>30,746</u>	<u>336,041</u>
Effect of exchange rate changes on translation of cash denominated in a currency other than the US dollar	(666)	-	(1,590)	-
Increase (decrease) in cash	(30,121)	(899)	(47,066)	58,155
Cash, beginning of the period	45,885	66,618	62,830	7,564
Cash, end of the period	<u>\$ 15,764</u>	<u>\$ 65,719</u>	<u>\$ 15,764</u>	<u>\$ 65,719</u>

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**  
**(in Thousands of United States Dollars, Unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Income (loss) for the period	\$ 10,568	\$ 742	\$ 53,917	\$ (1,915)
Unrealized gain on marketable securities available for sale, net of applicable future income taxes	5,256	-	5,256	-
Unrealized foreign exchange gain (loss) on net assets of self-sustaining operations denominated in a currency other than the US dollar	79	-	(845)	-
Comprehensive income (loss) for the period	<u>\$ 15,903</u>	<u>\$ 742</u>	<u>\$ 58,328</u>	<u>\$ (1,915)</u>

See accompanying notes to interim consolidated financial statements

**RED BACK MINING INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**  
**(Tables in Thousands of United States Dollars, Unaudited)**

**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 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 Tasiast Gold Mine ("Tasiast"). Tasiast was acquired in August 2007. The Company also holds various other exploration properties in Ghana, Mauritania and Côte D' Ivoire.

The recoverability of the costs of mineral properties and related deferred exploration expenditures are dependent upon the established economically recoverable reserves, preservation of the Company's interest in the underlying mineral claims, and future profitable production or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material reductions in the carrying amount of mineral properties and related expenditures.

The mineral properties are subject to sovereign risks, including political and economic instability, government regulations relating to exploration and mining, military repression, civil disorder, currency fluctuations and inflation, all or any of which may impede the Company's activities or may result in the impairment or loss of part or all of the Company's interest in the properties.

The interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial statements. Except for the adoption of the new standards outlined in Note 2, they follow accounting policies and methods of their application consistent with the annual consolidated financial statements as at December 31, 2007, but they do not conform in all respects with the disclosure requirements of generally accepted accounting principles for annual financial statements. Accordingly, they should be read in conjunction with the Company's December 31, 2007 annual consolidated financial statements.

**2. Change in Accounting Policies**

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

(a) 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 15.

(b) 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.

The required disclosure under Section 3862 can be found in the Management Discussion and Analysis for the third quarter, filed with securities regulators together with these financial statements, under the section titled "**Financial Instruments and Related Risks**".

### 3. Marketable Securities

Marketable securities are classified as available-for-sale financial instruments and consist of 62,090,407 shares in Mineral Deposits Limited. They are recorded at their fair value of Cdn. \$0.58 per share, calculated based on the September 30 closing bid price on the Australian Stock Exchange. The Company's original cost of the shares is Cdn. \$0.47 per share.

### 4. Inventories

	September 30, 2008	December 31, 2007
Stockpile ore	\$ 15,238	\$ 13,486
Gold in circuit	2,924	4,829
Gold in safe	722	1,092
Materials and supplies	17,267	9,032
	<u>\$ 36,151</u>	<u>\$ 28,439</u>

### 5. Property, Plant and Equipment

	September 30, 2008			December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Plant and equipment	\$ 27,808	\$ 3,763	\$ 24,045	\$ 6,811	\$ 1,590	\$ 5,221
Motor vehicles	2,769	1,741	1,028	2,223	1,317	906
Buildings	2,560	340	2,220	2,329	154	2,175
Construction in progress	58,778	-	58,778	10,768	-	10,768
	<u>\$ 91,915</u>	<u>\$ 5,844</u>	<u>\$ 86,071</u>	<u>\$ 22,131</u>	<u>\$ 3,061</u>	<u>\$ 19,070</u>

## 6. Mineral Properties and Related Expenditures

	Chirano	Tasiast	Other Projects	Total
<b>Balance, December 31, 2006</b>	\$ 97,787	\$ -	\$ 7,638	\$ 105,425
Acquisition of Tasiast	-	323,882	-	323,882
Exploration and development costs	12,241	1,714	1,847	15,802
Change in estimated asset retirement obligations	151	1,011	-	1,162
Pre-production costs	-	15,331	-	15,331
Pre-production revenues	-	(16,280)	-	(16,280)
Amortization	(9,242)	-	-	(9,242)
<b>Balance, December 31, 2007</b>	100,937	325,658	9,485	436,080
Exploration and development costs	40,338	14,071	238	54,647
Change in estimated asset retirement obligations	-	(39)	-	(39)
Amortization	(7,671)	(20,524)	-	(28,195)
<b>Balance, September 30, 2008</b>	<u>\$ 133,604</u>	<u>\$ 319,166</u>	<u>\$ 9,723</u>	<u>\$ 462,493</u>

### *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*

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. Exploration on these properties is ongoing.

## 7. Bank Loan

The bank loan is secured 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). The loan is repayable in six equal monthly installments starting on April 23, 2009 and ending September 23, 2009.

## 8. Asset Retirement Obligations

	Nine Months Ended September 30, 2008			Year Ended
	Chirano	Tasiast	Total	December 31, 2007
Balance, beginning of period	\$ 6,928	\$ 2,216	\$ 9,144	\$ 6,424
Assumed on acquisition	-	-	-	1,005
Change in estimate	-	(39)	(39)	1,162
Accretion expense	221	62	283	553
Balance, end of period	<u>\$ 7,149</u>	<u>\$ 2,239</u>	<u>\$ 9,388</u>	<u>\$ 9,144</u>

The Company has calculated the fair value of the asset retirement obligations using a discount rate of 5.5%.

## 9. Share Capital

(a) Authorized: unlimited common shares without par value

Issued and outstanding:

	Nine Months Ended September 30, 2008		Year Ended December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
<b>Balance, beginning of period</b>	187,814,970	\$ 556,920	97,740,946	\$ 101,849
Issued on conversion of special warrants	-	-	13,888,800	65,033
Issued on conversion of subscription receipts	-	-	55,555,200	270,921
Issued by short-form prospectus	-	-	16,667,200	107,820
Issued as a charitable donation	-	-	79,491	512
Issued on exercise of warrants	-	-	1,975,000	3,632
Issued on exercise of options	871,000	2,746	1,908,333	3,792
Fair value of options exercised	-	1,279	-	3,361
<b>Balance, end of period</b>	<u>188,685,970</u>	<u>\$ 560,945</u>	<u>187,814,970</u>	<u>\$ 556,920</u>

(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 is entitled to a grant of more than 5% of the Company's outstanding issued shares. The vesting of options is at the discretion of the Board.

The fair value of stock options has been recorded in the accounts of the Company as stock-based compensation with a corresponding increase in contributed surplus. In calculating the fair value estimate for the period, the Company used the Black-Scholes option pricing model, and assumed a risk-free rate of approximately 2.7% to 3.0% (December 31 2007: 3.4% - 4.5%), an expected volatility of approximately 36% to 45% (December 31 2007: 33% - 50%), an expected option life of two and half 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.

Changes in the number of issued and outstanding options are outlined in the table below:

	Nine Months Ended September 30, 2008		Year Ended December 31, 2007	
	Options Outstanding and Exercisable	Weighted Average Exercise Price (C\$)	Options Outstanding and Exercisable	Weighted Average Exercise Price (C\$)
Balance, beginning of period	7,595,000	5.34	3,463,333	2.34
Granted	1,290,000	7.08	6,040,000	6.05
Cancelled	(400,000)	7.13	-	-
Exercised	(871,000)	3.18	(1,908,333)	2.14
Balance, end of period	<u>7,614,000</u>	5.79	<u>7,595,000</u>	5.34

#### 10. Contributed Surplus

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 8,146	\$ 5,405
Fair value of stock-based compensation	3,851	6,102
Fair value of options exercised	(1,279)	(2,049)
Fair value of warrants exercised	-	(1,312)
Balance, end of period	<u>\$ 10,718</u>	<u>\$ 8,146</u>

#### 11. Accumulated Other Comprehensive Income

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 8,576	\$ (84)
Foreign exchange gain recognized due to the decrease in net assets denominated in other than US dollars	(5,659)	-
Other comprehensive income (loss)	4,411	8,660
Balance, end of period	<u>\$ 7,328</u>	<u>\$ 8,576</u>

## 12. Related Party Transactions

Transactions for the nine months ended September 30, 2008 and 2007 and balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$0.3 million (2007: \$0.2 million) for management services provided by a company related to the President of the Company. At September 30, 2008, \$nil was due to this company.
- (b) Paid \$11,000 (2007: \$20,000) to a firm related to a director for legal services. At September 30, 2008, \$nil was due to this firm.
- (c) Paid \$0.3 million (2007: \$0.2 million) to a company controlled by a director for management services. At September 30, \$nil was due to this company.

The above transactions, occurring in the normal course of business, are measured at the exchange amount, which is the fair value consideration established and agreed to by the related parties.

## 13. Segmented Information

The Company operates only in the gold sector.

	Three Months Ended September 30, 2008			
	Ghana	Mauritania	Others	Total
Gold revenues	\$ 23,338	\$ 30,862	\$ -	\$ 54,200
Operating costs and expenses	16,554	15,578	-	32,132
Depreciation and amortization	2,633	7,746	-	10,379
Profit from operations	4,151	7,538	-	11,689
Other income (costs)	(53)	1,103	(2,171)	1,121
Income for the period	\$ 4,098	\$ 8,641	\$ (2,171)	\$ 10,568

	Nine Months Ended September 30, 2008			
	Ghana	Mauritania	Others	Total
Gold revenues	\$ 82,433	\$ 86,577	\$ -	\$ 169,010
Operating costs and expenses	45,605	42,631	-	88,236
Depreciation and amortization	9,022	22,223	-	31,245
Profit from operations	27,806	21,723	-	49,529
Other income (costs)	(115)	3,184	1,319	4,388
Income for the period	\$ 27,691	\$ 24,907	\$ 1,319	\$ 53,917

During the three and nine months ended September 30, 2007, revenues were earned exclusively at Chirano in Ghana and all significant expenses were incurred in Ghana except for \$3.2 and \$7.5 million respectively of corporate head office net costs. The Company acquired a second mining property, Tasiast in Mauritania, on August 2, 2007. Tasiast was in the commissioning phase during 2007 and achieved commercial production at the beginning of 2008.

	As at September 30, 2008			Total
	Ghana	Mauritania	Others	
Current assets	\$ 29,659	\$ 29,870	\$ 42,712	\$ 102,241
Capital assets, net of depreciation and amortization	177,732	370,475	357	548,564
	<u>207,391</u>	<u>400,345</u>	<u>43,069</u>	<u>650,805</u>
Current liabilities	(19,079)	(15,331)	(28,664)	(63,074)
Non-current liabilities	(7,149)	(2,239)	-	(9,388)
Future income tax liabilities	-	(49,668)	-	(49,668)
	<u>\$ 181,163</u>	<u>\$ 333,107</u>	<u>\$ 14,405</u>	<u>\$ 528,675</u>

	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
	<u>148,754</u>	<u>354,183</u>	<u>54,197</u>	<u>557,134</u>
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)
	<u>\$ 134,017</u>	<u>\$ 282,264</u>	<u>\$ 53,128</u>	<u>\$ 469,409</u>

#### 14. Commitments

As at September 30, 2008, the Company had purchase commitments totaling approximately \$23.2 million for capital items required under expansion projects at both Chirano and Tasiast.

#### 15. 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. To date, the Company's working capital position and cash flow from operations has been sufficient to satisfy the related 2008 financial costs. Management is also engaged in negotiations to establish 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 capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended September 30, 2008.

**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