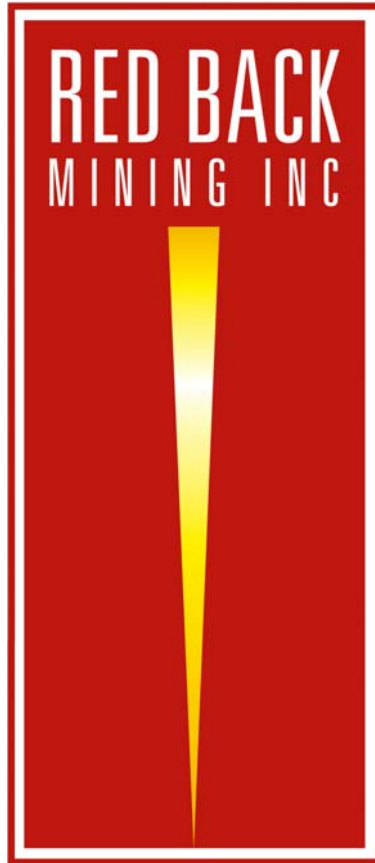


# **RED BACK MINING INC.**



## **ANNUAL REPORT**

**For the Year Ended**

**December 31, 2009**

**RED BACK MINING INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008**

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, 2009 and 2008 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 25, 2010. 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 Chirano Gold Mine ("Chirano"). The Government of Ghana has a right to acquire a 10% ownership of Chirano Gold Mines Limited ("CGML"), at no cost. In Mauritania, the Company holds a 100% interest in the Tasiast Gold Mine ("Tasiast") through Tasiast Mauritanie Limited SA ("TMLSA"). 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, 2009, Tasiast had produced 313,502 oz). Red Back also holds various other exploration properties in Ghana, Mauritania and Côte D' Ivoire.

## Highlights

Red Back has had a very successful year in 2009. In addition to net income increasing over 75% from 2008, the Company completed plant expansions at Chirano and Tasiast, commenced underground mining at Chirano and dump leach operations at Tasiast, generated significant increases in reserves/resources at Tasiast, with further significant increases expected in 2010, and identified at Paboase what could become a second underground deposit at Chirano.

The Company's highlights for the year were:

- A 31% increase in gold production to 342,085 oz (2008: 260,847 oz), including 17,786 oz from underground development at Chirano capitalized for financial reporting purposes.
- A 15% increase in average realized gold price to \$996 per oz (2008: \$866 per oz).
- A 9% decrease in cash operating costs to \$391 per oz (2008: \$428 per oz).
- Net income of \$109 million (2008: \$61.9 million).
- An 85% increase in proven and probable reserves at Tasiast.
- The discovery of the mineralized "Greenschist zone" at Tasiast over a 500 metre strike length, which is open to the north and south and down dip.
- The discovery of the Paboase underground deposit at Chirano.
- The completion of the Chirano and Tasiast plant expansions.
- Commencement of Akwaaba underground commercial production at Chirano.
- Commencement of dump leaching operations at Tasiast.
- A CAD \$165 million equity financing.

Red Back expects production to increase to between 485,000 - 525,000 oz in 2010, a projected 42 - 54% increase from 2009, at a cash cost of between \$390 - \$420 per oz. Red Back's objective is to reach an annualized production rate of 800,000 oz during 2012 on the strength of CIL, dump leach and heap leach operations at Tasiast and the commencement of mining of the second underground deposit at Chirano.

## Results of Operations

(amounts in thousands of dollars except for earning per share)	Year ended December 31,		
	2009	2008	2007
Gold revenue	318,389	223,660	73,497
Net income (loss)	109,162	61,901	(91,904)
Earnings per share, basic	0.48	0.33	(0.70)
Earning per share, diluted	0.48	0.32	(0.70)
Total assets	961,131	701,702	557,134
Long-term liabilities	68,565	58,885	62,036

The Company reported record net income of \$109 million for the year compared to \$61.9 million in 2008. The significant contributing factors to the strong results in 2009 are:

- a 92% increase in mining operating profits due to increased production, a decrease in cash cost per oz and higher gold prices; and
- over \$20 million in income contributions from corporate activities relating to a termination fee on the Moto transaction, a gain on sale of marketable securities (see "Liquidity and Capital Resources" section) and realized foreign exchange gains.

Lower operating costs per oz compared to 2008 are due to higher production, and lower power and mining costs at Chirano and Tasiast respectively. Royalties include an \$8 million expansion fee due to the government of Mauritania upon completion of the plant expansion at Tasiast. In addition, the Company started depreciating the costs of the plant expansions at Chirano and Tasiast and amortizing the underground development costs at Chirano in the fourth quarter of 2009.

General and administration costs increased in 2009 compared to 2008 because of higher compensation and promotional costs during 2009. Stock-based compensation costs, also higher, are based to a large degree on the appreciation of the Company's share price, which in 2009 increased by almost 100%.

Results for the year also include other income of \$13.2 million from the receipt of a termination fee from the Moto transaction, a \$6.2 million gain from foreign currency transactions and a \$3.0 million gain on sale of securities. 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 tables below summarize key operating statistics of the Company for the last quarter and the year.

	Three months ended Dec. 31, 2009			Three months ended Dec. 31, 2008		
	Chirano	Tasiast	Total	Chirano	Tasiast	Total
Ore tonnes mined ('000t)	1,246	1,620	2,866	864	1,112	1,976
CIL Ore tonnes milled ('000t)	877	547	1,424	539	394	933
CIL Average grade (g/t)	2.2	2.8	2.4	2.0	3.7	2.7
CIL Average recovery	89.9%	90.2%	90.0%	91.9%	92.5%	92.2%
Gold produced, CIL (oz)	54,518	44,589	99,107	31,346	41,318	72,664
Gold produced, dump leach (oz)	-	12,083	12,083	-	-	-
Gold produced, total (oz)	54,518	56,672	111,190	31,346	41,318	72,664
Gold sold (oz) (Note 2)	52,225	49,922	102,147	28,778	40,719	69,497
Realized gold price per oz	\$1,122	\$1,110	\$1,116	\$783	\$789	\$786
Cash costs per oz (Note 3)						
Operating	\$445	\$324	\$386	\$497	\$319	\$393
Royalty	\$ 34	\$176	\$103	\$ 26	\$ 24	\$ 25
Depreciation and amortization per oz (Note 4)	\$174	\$275	\$223	\$125	\$224	\$187

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

Note 2: 2009 gold sold at Chirano excludes 3,782 oz recovered from underground operations and capitalized during pre-production development.

Note 3: This is a non-GAAP measure. It is calculated by dividing costs on the statement of income and retained earnings by gold oz sold.

Note 4: For Tasiast, approximately \$94 per oz (\$128) 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.

	Year ended December 31, 2009			Year ended December 31, 2008		
	Chirano	Tasiast	Total	Chirano	Tasiast	Total
Ore tonnes mined ('000t)	3,723	4,817	8,540	3,094	2,522	5,616
CIL Ore tonnes milled ('000t)	2,718	1,684	4,402	2,205	1,486	3,691
CIL Average grade (g/t)	2.3	2.9	2.5	1.9	3.1	2.5
CIL Average recovery	90.4%	91.9%	91.0%	91.8%	93.6%	92.8%
Gold produced, CIL (oz)	183,425	142,260	325,685	120,793	140,054	260,847
Gold produced, dump leach (oz)	-	16,400	16,400	-	-	-
Gold produced, total (oz)	183,425	158,660	342,085	120,793	140,054	260,847
Gold sold (oz) (Note 2)	165,052	154,720	319,772	120,285	137,993	258,278
Realized gold price per oz	\$999	\$992	\$996	\$873	\$860	\$866
Cash costs per oz (Note 3)						
Operating	\$443	\$336	\$391	\$478	\$384	\$428
Royalty	\$ 30	\$ 81	\$ 55	\$ 26	\$ 26	\$ 26
Depreciation and amortization per oz (Note 4)	\$123	\$241	\$180	\$105	\$227	\$170

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

Note 2: 2009 gold sold at Chirano excludes 17,786 oz recovered from underground operations and capitalized during pre-production development.

Note 3: This is a non-GAAP measure. It is calculated by dividing costs on the statement of income and retained earnings by gold oz sold.

Note 4: For Tasiast, approximately \$93 per oz (2008: \$128) 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

Tasiast's 30 year mining lease is located in the north-western part of Mauritania, approximately 300 kilometres north of the capital of Nouakchott and 162 kilometres east-southeast of the port city of Nouâdhibou. Tasiast's exploration licenses include a 60 kilometre strike length of the Aoueuat greenstone belt of Achaean age. To December 31, 2009, drilling in support of the resources and reserves only covers 8 kilometres of this belt. Red Back is continuing an extensive exploration program to identify prospective mineralized areas along this belt.

The current mine plan includes the Piment and the West Branch deposits. Drilling results to date have expanded the in-situ reserves from 2.3 million oz at December 31, 2008 to 3.0 million oz at August 31, 2009, as detailed in the table below.

	<b>Tonnes (Mt)</b>	<b>Au (g/t)</b>	<b>Ounces (Moz)</b>
Total Proven	33.8	1.43	1.56
Total Probable	30.0	1.45	1.40
Total Stockpile	3.7	0.76	0.09
<b>Total</b>	<b>67.5</b>	<b>1.40</b>	<b>3.05</b>

Note: the ore reserve estimate used a gold price of US\$700

The existing ore body is open both at depth and along strike to the north and south. Drilling during 2009 generated a 75% expansion in the measured and indicated resource to 6.51 million oz (News release dated February 1, 2010). A drilling program to further expand the resource and reserves is currently underway. A new reserve estimate is expected before the end of the first quarter in 2010.

The reserves include lower grade oxide ore which is being processed by dump leaching. The Company is continuing test work to establish the recovery and processing characteristics of low grade fresh ore to enable processing by heap leaching. Results to date show an average recovery rate of 59%. Completion of this test work should occur in the first half of 2010 followed by the estimation of an initial heap leach reserve in the third quarter.

The expansion of the Tasiast processing facility was completed in 2009. The irrigation of the dump leach pads commenced in the fourth quarter and recoveries from dump leaching are expected to increase through 2010. At the same time, the new tailings facility became operational allowing for increased throughput in the expanded mill.

During the last three months of the year Tasiast produced 56,672 oz (2008: 41,318 oz) at a cash operating cost of \$324 per oz (2008: \$319 per oz). Tasiast's production for the full year was 158,660 oz (2008: 140,054 oz) at a cash operating cost of \$336 per oz (2008: \$384 per oz). The decrease in operating costs compared to 2008 is largely due to lower mining costs and higher production.

Royalties exceeded the expected rate of 3% of revenues due to the inclusion of an expansion fee paid to the government of Mauritania following receipt of the final permits relating to the plant expansion project. Expansion fees will also apply in 2010, the remaining period of time during which they are payable. The fees will be expensed proportionately to the production during the year. The total 2009 expansion fees were paid at the end of August and were expensed proportionately to the production of the last four months of the year. As a result, the fourth quarter of 2009 included \$7.3 of the total \$8 million paid in 2009.

The completion of the plant expansion combined with the operational dump leach pads will result in higher production in 2010 (245,000 – 265,000 oz). Cash costs per oz are forecast to remain constant at \$325 - \$350 as the benefits of higher production are expected to be offset by a lower grade profile.

#### Chirano gold mine, Ghana

The Chirano mining lease, granted in April 2004, is situated in south-western Ghana, 100 kilometres southwest of Kumasi, Ghana's second largest city. The project is within the Bibiani gold belt and the present mining plan includes a series of open pit deposits and the high grade Akwaaba underground mine. Gold mineralization continues at depth below the current open pit designs at many of the deposits currently included in the mine plan. The initial underground inferred resource estimates for the Paboase and Suraw deposits were published in March 2009. Further mineralized high-grade intercepts resulted in an increase in the resource estimate of Paboase and Akoti, which now includes an indicated resource of 248,000 oz plus an additional 610,000 oz of inferred resources.

Underground mining at Akwaaba reached commercial levels of ore production at the end of October at which time capitalization of all mining costs other than the continuing development of the decline ceased.

Chirano's production in the fourth quarter of 2009 was 54,518 oz (2008: 31,346 oz) at a cash operating cost of \$445 per oz (2008: \$497 per oz). For the year, Chirano produced 183,425 oz (2008: 120,793 oz) at a cash operating cost of \$443 per oz (2008: \$478 per oz). Cash operating costs are lower compared to 2008 due to increased production, higher grade, and lower electricity charges.

The processing of increasing quantities of higher grade ore from Akwaaba and the utilization of the expanded processing facility will lead to increased production of 240,000 – 260,000 oz in 2010. Cash costs are expected to be \$460 - \$490 per oz, slightly higher than in 2009 because of the impact of the higher cost underground mining operations.

### Other income statement items

Interest expense in 2009 relates principally to stand-by fees and deferred financing charges on an undrawn revolving facility and interest charges on a bank loan taken out in September 2008 to finance the purchase of shares in Mineral Deposits Limited. The bank loan was repaid in February 2009. Interest income is higher in 2009 compared to 2008 because of a higher average cash balance on hand notwithstanding lower interest rates.

General and administrative costs in 2009 are higher compared to 2008 because of increased promotional activities, which included a Company-sponsored site visit to its operations by a group of financial analysts and fund managers during the second quarter, higher staffing levels and higher executive compensation in step with the success and growth of the Company's operations in 2009.

Stock-based compensation reflects the amortization of the fair value of share based awards over their vesting period. The fair value calculation is based, to a large degree, on the Company's share price and its appreciation over time. In 2009, Red Back share price increased by almost 100% and over 300% over the last three years. The granting of share based awards and the determination of their vesting period is at the discretion of the Board. Accordingly, the related expense may not be uniform across quarters or financial years. During the year, the Board approved two new forms of cash settled share based awards, a share appreciation plan and a deferred share unit plan, in part to reduce the dilution to shareholders from the issuance of stock options.

Other income of \$13.2 million relates to a termination fee received in the year on the Moto transaction, net of related professional and consulting costs, which is fully described in the "Liquidity and Capital Resources" section of this document.

In 2009, the Company recognized a \$3.0 million gain from the sale of Mineral Deposits Limited shares purchased in 2008. A gain of \$1.7 million was recognized in 2008 on another investment.

During the second half of 2009, the Company effectively liquidated its Australian dollar holdings against payment of expenditures for the plant expansions, thereby crystallizing an unrealized foreign exchange gain of \$6.2 million due to the appreciation of the Australian dollar against the US dollar since Red Back's acquisition of the Australian currency position earlier in the year. The Company has also reported unrealized foreign exchange gains of \$24.4 million in other comprehensive income, arisen primarily from holding Canadian dollars in 2009.

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, 2009, the subsidiary had a retained earnings of approximately \$10 million and, therefore, minority interest has been recognized.

The write off of deferred exploration costs in 2009 relates to early stage projects whose exploration licenses were relinquished as they were not deemed prospective.

### Income Taxes

Current income tax expense relates to a special tax levy introduced in the third quarter by the Ghanaian parliament that applies to companies in selected industries, including the mining sector. This levy, calculated at 5% of CGML's net income before income taxes, is applicable in 2009 (half year only) and 2010.

Future income expense on Chirano profits was calculated at a reduced effective tax rate compared to the Ghanaian income tax rate of 25% because it was adjusted by the effect of previously unrecognized tax assets. Starting in 2010, CGML expects future income tax expense to be recorded at the 25% rate.

No tax expense is recorded against Tasiast profits in Mauritania as TMLSA was granted a three year "tax holiday" under an existing mining convention with the government of Mauritania. The Company has recognized a \$2.9 million future benefit for TMLSA's tax losses carry-forward that are expected to be utilized to reduce future taxable income once the tax holiday expires in 2011.

No income taxes arise from the income generated by the Moto Fee because of offsetting current and previously unrecognized tax losses carry-forwards, as applicable.

#### Other Comprehensive Income

Other comprehensive income reflects realized and unrealized gains derived from exchange rate changes on translation of cash balances in a currency other than the US dollar and the reversal of unrealized gains on marketable securities held at the end of 2008 and sold in 2009.

#### Selected quarterly information

<b>Summary of Financial Results</b>								
<b>Quarter Ended</b>	<b>Dec 09</b>	<b>Sep 09</b>	<b>Jun 09</b>	<b>Mar 09</b>	<b>Dec 08</b>	<b>Sep 08</b>	<b>Jun 08</b>	<b>Mar 08</b>
Total revenue (\$'000)	114,026	69,152	69,353	65,858	54,650	54,200	60,396	54,414
Net income (loss) (\$'000)	24,038	35,113	24,666	25,345	7,983	10,568	23,485	19,864
Net income (loss) per share (\$)	0.10	0.15	0.11	0.12	0.04	0.06	0.12	0.11

Although Red Back achieved record quarterly production and revenues in the last three months of 2009 net income was negatively affected by increased depreciation, high royalties at Tasiast, the recognition of year end provisions for stock-based and executive compensation, minority interest at Chirano, and the write off of deferred exploration costs. The third quarter net income is unusually high as it includes other income of \$13.2 million as a result of the Moto transaction and foreign exchange gains of \$4.1 million.

#### **Liquidity and Capital Resources**

At December 31, 2009 the Company had cash and cash equivalents of \$150 million (2008: \$22 million) and working capital of \$218 million (2008: \$47 million).

During 2009, Red Back completed 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	\$ 34.1	\$ 27.2	\$ 61.3
Mining fleet	-	8.3	8.3
Back-up diesel generator unit	4.1	-	4.1
Others	3.3	3.9	7.2
<b>Total</b>	<b>\$ 41.5</b>	<b>\$ 39.4</b>	<b>\$ 80.9</b>

Additions to exploration and development costs totalling \$87.3 million are mainly attributable to:

- the underground development activities at Akwaaba at Chirano (\$19.1 million);
- ongoing discretionary exploration to identify new resources (Chirano: \$6.3 million; Tasiast: \$15.9 million);
- open pit cut backs and haul road construction costs to provide access to additional ore reserves at Chirano (\$28.3 million);
- planned expansion of the tailings dam (Chirano: \$1.4 million; Tasiast: 4.6 million); and
- construction of dump leach pads at Tasiast (\$7.8 million).

On February 12, 2009, the Company raised gross proceeds of \$132.5 million (CAD \$165 million) by issuing 22.0 million common shares at a price of CAD \$7.50 per share under a short form prospectus financing.

In February 2009, Red Back sold its interest in Mineral Deposits Limited (“MDL”) for approximately \$26.3 million, generating a gain of \$3.0 million. The MDL investment was originally funded by a bank loan. This loan was repaid on February 26, 2009.

On June 1, 2009, Red Back and Moto Goldmines Limited (“Moto”) entered into an arrangement agreement (the “Agreement”) pursuant to which each outstanding common share of Moto would be exchanged for 0.45 of a common share of Red Back and \$0.001. Red Back had a right to match a superior proposal received by Moto. On July 27, 2009 Moto advised Red Back that it had received a superior proposal. Red Back did not exercise its right to match and, accordingly, the Agreement was terminated. Under the terms of the Agreement, Moto paid Red Back a CAD \$15.25 million termination fee on August 5, 2009 (the “Moto Fee”).

At December 31, 2009, the Company had purchase commitments totalling \$17.1 million for ongoing capital projects at the two operating mines. 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	\$ 9.1	\$ 9.1	-	-	-
Tasiast expansion fee	8.0	8.0	-	-	-
<b>Total</b>	<b>\$ 17.1</b>	<b>\$ 17.1</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 flows in 2010, well in excess of funds earmarked for its exploration programs and ongoing capital projects. In addition, Red Back’s \$150 million cash position at December 31, 2009 and a \$30 million revolving corporate debt facility provide it with additional flexibility in its operations and in responding to new corporate opportunities.

## **Contingency**

As a result of a tax audit during 2009, CGML received a notice of re-assessment of prior years’ income tax returns denying approximately \$90 million of past, current and future income tax deductions and imputing additional revenues of approximately \$30 million, both related to the tax treatment of hedge contracts entered into in 2005 as part of the original bank project financing required for the construction of the Chirano Gold Mine. CGML is vigorously defending its original tax filing position. The final outcome of this matter is not determinable at this time. Should the re-assessment be ultimately upheld, it would result in the recognition of additional future income tax liabilities of approximately \$22 million.

## **Transactions with Related Parties**

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

- paid \$0.5 million (2008: \$0.5 million) for management services provided by a company related to the President of the Company;
- paid \$0.43 million (2008: \$0.47 million) to a company controlled by a director for management services; and
- received \$1.2 million (2008: \$nil) from the sale of a single gold bar to a company controlled by 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 judgment 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 equity-settled 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 judgment around a number of assumptions. Judgment 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, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") standard issued under Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, "Revenues and Expenditures in the Pre-operating Period," ("EIC-27") was withdrawn. Adoption of this standard did not have a significant effect on the Company's financial statements.

## **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.

As at December 31, 2009, the Company's currency risk was limited to \$112.5 million of cash balances denominated in Canadian dollars (\$8.3 million at December 31, 2008). 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 \$11.3 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 or credit risks because the Company has not engaged 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. In addition, cash and cash equivalents are held through large financial institutions and, as at December 31, 2009, were with counterparties with high credit ratings.

## **International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board 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. The effective implementation date of the conversion from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. Red Back is engaged in an assessment and conversion process which includes consultation with external consulting firms and expects to be ready for the conversion to IFRS in advance of January 1, 2011. As part of the conversion process, the Company has offered IFRS specific training to senior financial reporting personnel and directors.

The Company's approach to the conversion to IFRS includes three phases.

- Phase one, an initial general diagnostic of its accounting policies and Canadian GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS, was completed in late 2008.
- Phase two, an in depth analysis of the impact of those areas identified under phase one, commenced in 2009 and is expected to be completed in the second quarter of 2010.
- Phase three, the implementation of the conversion process, through the preparation of the opening balance sheet as at January 1, 2010, will be carried out in the second half of 2010.

At this point, the Company's IT accounting and financial reporting systems are not expected to be significantly impacted. Further, the Company has in place internal and disclosure control procedures to ensure continued effectiveness during this transition period.

Based on the review undertaken under Phase One and the work completed to date under Phase Two, the Company believes that IFRS will have limited impact on its current financial position. At the same time, IFRS will likely require more extensive disclosure and analysis of balances and transactions in the notes to the financial statements. The specific accounting areas the Company has focused its analysis on are outlined below together with the more salient issues under each area.

<b>Key Area</b>	<b>Canadian GAAP (applied by Red Back)</b>	<b>IFRS</b>	<b>Analysis and preliminary conclusions</b>
Property plant and equipment	PP&E is recorded at historical cost  Depreciation is based on their useful lives after due estimation of their residual values	PP&E can be recorded using the cost (on transition to IFRS, the then fair value can be deemed to be the cost) or revaluation models  Depreciation must be based on the useful lives of each significant component within PP&E	PP&E will likely continue to be recorded at their historical costs due to the complexity and resources required to determine fair values on an annual basis  Based on an analysis of PP&E's significant components and their useful lives, it is unlikely that changes to their useful lives and, therefore, depreciation rates and expenses, will be required
Mineral properties	Exploration, evaluation and development costs are capitalized when incurred  They are amortized on the basis of production or written off when the prospect is no longer deemed prospective or is abandoned	IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed	The existing accounting policy is likely to be maintained

<p>Asset retirement obligations</p>	<p>Canadian GAAP limits the definition of ARO's to legal obligations</p> <p>ARO is calculated using a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. The original liability is not adjusted for changes in current discount rates</p>	<p>IFRS defines ARO's as legal or constructive obligations</p> <p>ARO is calculated using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability) and is revised every reporting period to reflect changes in assumptions or discount rates</p>	<p>The broadening of this definition is unlikely to cause a significant change in current estimates</p> <p>The change in calculation of ARO and the discounting process will likely generate some changes in the value of ARO on transition</p>
<p>Impairment of long lived assets</p>	<p>Impairment tests of its long-term assets are considered annually based on indications of impairment</p> <p>Impairment tests are generally done on the basis of undiscounted future cash flows</p> <p>Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets</p>	<p>Impairment tests of "cash generating units" are considered annually in the presence of indications of impairment</p> <p>Impairment tests are generally carried out using the discounted future cash flow</p> <p>Write downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist</p>	<p>Assets will continue to be grouped under the Company's two gold mining operations, Chirano and Tasiast. Currently, there are no indications of impairment and, therefore, no impairment test has been performed</p> <p>Impairment tests using discounted values could generate a greater likelihood of write downs in the future</p> <p>Potential significant volatility in earnings could arise as a result of the difference in the treatment of write-downs</p>
<p>Stock-based compensation</p>	<p>Stock-based compensation is determined using fair value models (e.g. Black-Scholes) for equity-settled awards and the intrinsic model for cash-settled awards</p>	<p>Stock-based compensation is determined using fair value models for all awards. However, upon settlement, cash-settled awards are adjusted to the value actually realized (intrinsic model)</p>	<p>The determination of the value of stock-based compensation for share appreciation rights and deferred share units, both cash-settled awards, will change and likely be more volatile under a Black-Scholes model until the awards are settled</p>
<p>Income taxes</p>	<p>Deferred tax assets or liabilities for temporary differences arising from changes in foreign exchange where the functional currencies for accounting and tax purposes are different are not recognized</p>	<p>Deferred tax assets or liabilities for temporary differences arising from changes in foreign exchange where the functional currencies for accounting and tax purposes are different are recognized</p>	<p>This difference will likely result in a change in the balances of future income tax liabilities as Red Back's functional currency for tax purposes are not the US dollar</p>

In addition to the above, the Company will likely take an available exemption ("IFRS 1") that permits it not to restate the Tasiast acquisition in accordance with IFRS 3, since the transaction took place prior to the transition date of January 1, 2010.

The above comments should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements as at January 1, 2011 and in subsequent years, including projects regarding income taxes, financial instruments and joint venture accounting. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

### **Outstanding Share Data**

As at February 25, 2009, the Company had 232,026,635 common shares issued and outstanding and 5,358,336 share options outstanding under its stock-based incentive plan of which 1,175,000 were granted under a new plan and are conditional to receiving shareholders' approval of the new 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.

#### *Estimation 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 2009, a 10% variation in the average realized gold price would have resulted in a \$34 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 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.

#### *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 three years, increasing its asset base from \$137 million at the beginning of 2007 to \$961 million at the end of 2009. During this same period, gold reserves and annual revenues quadrupled. Based on exploration results to date, Red Back expects continuing increases in reserves at both Tasiast and Chirano in 2010.

Completion of 2009 plant expansions at Chirano and Tasiast is expected to increase the Company's production profile to between 485,000 - 525,000 oz in 2010 (2009: 342,085 oz). Overall, cash operating costs are estimated between \$390 and \$420 per oz in 2010 (2009: \$391 per oz).

### Chirano

In 2010, operations at Chirano will include both open pit and underground mining. Underground mining of the higher grade ore from Akwaaba is scheduled to reach full production rate in mid 2010. Estimated 2010 production is 240,000 – 260,000 oz at cash operating costs of \$460 - \$490 per oz (2008: 183,425 oz at \$443 per oz).

Total anticipated 2010 Chirano capital costs of \$77 million break down as follows:

- Akwaaba decline development: \$ 18 million
- Paboase underground development: \$ 21 million
- tailings dam lift: \$ 13 million
- open pit cut backs: \$ 11 million
- plant and equipment enhancement projects: \$ 8 million
- sustaining capital: \$ 6 million

Development of Paboase, Chirano's second underground deposit, is forecast to start early in the second quarter.

Exploration and evaluation at Paboase and below other open pits will continue in order to identify additional high grade deposits at depth. A \$6 million exploration program has been approved for the first half of 2010.

### Tasiast

Tasiast is forecast to produce 245,000 – 265,000 oz of gold in 2010 (2009: 158,660 oz). This will be as a result of higher throughput following completion of the expansion of Tasiast's processing plant and a full year of dump leach operations, forecast to contribute over 60,000 oz of gold in the year. Cash operating costs in 2010 are estimated at \$325 - \$350 per oz (2008: \$336 per oz).

Total anticipated 2010 Tasiast capital costs of \$48 million break down as follows:

- mining fleet expansion: \$ 16 million
- dump leach: \$ 14 million
- heap leach: \$ 7 million
- plant and equipment enhancement projects: \$ 4 million
- tailings dam lift: \$ 2 million
- sustaining capital: \$ 5 million

Revised resource and reserve estimates are expected before the end of the first quarter of 2010 as well as in the third quarter when heap leach operations are expected to be included in the estimate. Tasiast continues to demonstrate great exploration upside and an initial \$22 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 progress 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.

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, 2009 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 25, 2010

***“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, 2009 and December 31, 2008 and the consolidated statements of income and retained earnings and deficit, cash flows, and comprehensive income 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, 2009 and December 31, 2008 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 25, 2010

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

	December 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 150,471	\$ 22,205
Accounts receivable	32,795	15,179
Marketable securities (Note 4)	-	28,966
Inventories (Note 5)	76,779	45,132
Prepaid expenses	2,298	397
	262,343	111,879
Deferred charges	490	-
Property, plant and equipment (Note 6)	269,246	208,425
Mineral properties and related expenditures (Note 7)	429,052	381,398
	\$ 961,131	\$ 701,702
	\$ 961,131	\$ 701,702
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 43,256	\$ 36,837
Bank loan (Note 8)	-	28,000
Taxes payable	929	-
	44,185	64,837
Non current liabilities		
Asset retirement obligations (Note 9)	11,492	9,768
Future income tax liability (Note 13)	55,000	49,117
Other liabilities	2,073	-
	68,565	58,885
Minority interest	1,008	-
Shareholders' equity		
Share capital (Note 10)	758,243	607,914
Contributed surplus (Note 11)	7,201	10,506
Accumulated other comprehensive income	15,099	1,892
Retained earnings (deficit)	66,830	(42,332)
	847,373	577,980
	\$ 961,131	\$ 701,702

Contingency and commitments (Notes 13 and 15)

**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 AND RETAINED EARNINGS (DEFICIT)**  
(in Thousands of United States Dollars)

	Year Ended December 31, 2009	Year Ended December, 31 2008
Gold revenue	\$ 318,389	\$ 223,660
Costs and expenses		
Operating	125,070	110,537
Depreciation and amortization	57,606	43,972
Accretion	391	503
Royalties	17,552	6,710
Profit from mining operations	<u>117,770</u>	<u>61,938</u>
Depreciation	18	20
General and administrative	11,314	7,247
Interest expense and bank charges	642	673
Stock based compensation	8,998	3,999
Write-off of exploration costs	2,110	849
Interest income	(1,248)	(877)
	<u>21,834</u>	<u>11,911</u>
Income before the undernoted items	95,936	50,027
Foreign exchange gain	6,190	5,659
Gain on sale of marketable securities	3,020	1,708
Other income	13,174	-
Income before income taxes	<u>118,320</u>	<u>57,394</u>
Current income tax expense	(1,621)	-
Future income tax recovery (expense)	(6,529)	4,507
	<u>(8,150)</u>	<u>4,507</u>
Net income before minority interest	110,170	61,901
Minority interest	(1,008)	-
Net income	109,162	61,901
Deficit, beginning of the year	<u>(42,332)</u>	<u>(104,233)</u>
Retained earnings (deficit), end of the year	<u>\$ 66,830</u>	<u>\$ (42,332)</u>
Income per common share – basic	<u>\$ 0.48</u>	<u>\$ 0.33</u>
Weighted average number of shares outstanding - basic	<u>227,412,339</u>	<u>189,386,214</u>
Income per common share – diluted	<u>\$ 0.48</u>	<u>\$ 0.32</u>
Weighted average number of shares outstanding - diluted	<u>228,976,372</u>	<u>190,702,308</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, 2009	Year Ended December 31, 2008
<b>Cash flows from (used in) operating activities</b>		
Net income	\$ 109,162	\$ 61,901
Items not affecting cash		
Amortization and depreciation	57,624	43,992
Accretion	391	503
Deferred charges	210	-
Foreign exchange gain	(6,190)	(5,659)
Future income taxes	6,529	(4,507)
Gain on sale of marketable securities	(3,020)	(1,708)
Minority interest	1,008	-
Stock based compensation	6,589	3,999
Write off of exploration costs	2,110	849
	<u>174,413</u>	<u>99,370</u>
Net changes in non-cash working capital items		
Accounts receivable and prepaid expenses	(19,517)	(4,861)
Inventories	(31,647)	(16,693)
Accounts payable and accrued liabilities	8,434	8,272
	<u>131,683</u>	<u>86,088</u>
<b>Cash flows from (used in) investing activities</b>		
Mineral properties and related expenditures	(85,975)	(77,268)
Purchase of property, plant and equipment	(83,958)	(99,250)
Purchase of marketable securities	-	(31,648)
Proceeds from the sale of marketable securities	26,297	5,775
	<u>(143,636)</u>	<u>(202,391)</u>
<b>Cash flows from (used in) financing activities</b>		
Common shares issued, net of cash issue costs	144,478	49,355
Debt issue (repayments)	(28,000)	28,000
Deferred charges	(700)	-
	<u>115,778</u>	<u>77,355</u>
Effect of exchange rate changes on translation of cash denominated in a currency other than the US dollar	24,441	(1,677)
Increase (decrease) in cash and cash equivalents	128,266	(40,625)
Cash and cash equivalents, beginning of the year	22,205	62,830
Cash and cash equivalents, end of the year	<u>\$ 150,471</u>	<u>\$ 22,205</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, 2009</u>	<u>Year Ended December 31, 2008</u>
Net income	\$ 109,162	\$ 61,901
Gain on marketable securities reclassified to net income on realization	(5,044)	-
Foreign exchange gain on net assets denominated in other than US dollars reclassified to net income on realization	(6,190)	(5,659)
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	24,441	(6,069)
Total other comprehensive income	<u>13,207</u>	<u>(6,684)</u>
Comprehensive income	<u>\$ 122,369</u>	<u>\$ 55,217</u>

See accompanying notes to consolidated financial statements.

**RED BACK MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
**(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 Chirano Gold Mine ("Chirano"). The Government of Ghana has the right to acquire a 10% ownership of Chirano Gold Mines Limited, at no cost. In Mauritania, the Company holds a 100% interest in the Tasiast Gold Mine ("Tasiast"). The Company also holds various other exploration properties in Ghana, Mauritania and Côte d'Ivoire.

**2. Changes in Accounting Policies**

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") standard issued under Section 3064 of the Handbook, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, CICA Emerging Issues Committee Abstract 27, "Revenues and Expenditures in the Pre-operating Period" ("EIC-27"), was withdrawn. Adoption of this standard did not have a significant effect on the Company's financial statements.

**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 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.

(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.

(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 judgment 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.

CICA Handbook section 3862 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values. The Company's financial instruments as at December 31, 2009 classified as "Level One - Quoted prices in active markets" are cash and cash equivalents. Accounts receivable, accounts payables and accrued liabilities are classified as "Level Two - Inputs other than quoted prices that are observable for the assets and liabilities either directly or indirectly".

Additional disclosure required under Section 3862 can be found in the Management Discussion and Analysis for the year ended December 31, 2009, 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 which are readily convertible to known amounts of cash within three months of purchase and which, in the opinion of management, are subject to an insignificant risk of changes in value.

(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 on a straight line basis over the life of the mines. 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.

(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 appreciation rights ("SAR's") is calculated using the intrinsic method and reflects the net increase in the price of Red Back common shares from the time of grant to the time of exercise of the SAR's. Changes in the intrinsic value are recorded as an expense/recovery on a straight-line basis over their graded vesting periods and the credit is recorded as a liability as the SAR's vest.

The fair value of deferred share units (“DSU’s”) is calculated using the intrinsic method and is based on the value of Red Back common shares from the time of grant to the time of exercise of the DSU’s. Changes in the intrinsic value are recorded as an expense/recovery on a straight-line basis over their graded vesting periods and the credit is recorded as a liability as the DSU’s vest.

The fair value of stock option grants is calculated using the Black-Scholes model and takes into account a number of variables, including the exercise price, the expected dividends on the stock, the Company’s share price and its expected volatility, the expected forfeiture rates and expected life of the options, and the risk-free interest rate over the options expected life. It is recorded as an expense on a straight-line basis over their graded vesting periods and the credit is recorded to contributed surplus. The fair value is subsequently transferred to share capital on exercise of the related option. Cash consideration received when options are exercised is credited to capital stock. The volatility assumptions take into consideration both historical and implied volatility of the Company’s share price. The forfeiture rate is estimated based on historical and expected future forfeitures rates, adjusted when the actual forfeiture rate differs from the expected rate. The expected life of the options takes into consideration historical data regarding the timing of exercise by option holders. The risk-free rate is based on the yields of government of Canada bonds with a remaining life equivalent to the expected life of the options.

(p) Earnings Per Share

Earnings per share are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share are 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 is the same because the inclusion of common share equivalents would be anti-dilutive.

(q) Certain of the 2008 balances have been reclassified to conform to this year’s presentation.

**4. Marketable Securities**

Marketable securities consisting of 62,090,407 shares in Mineral Deposits Limited were sold during the year realizing a \$3.0 million gain on disposition. The Company did not hold marketable securities at December 31, 2009.

**5. Inventories**

	December 31,	
	2009	2008
Stockpile ore	\$ 28,580	\$ 17,190
Gold in circuit	3,442	2,840
Gold in safe	4,718	2,429
Materials and supplies	40,039	22,673
	<u>\$ 76,779</u>	<u>\$ 45,132</u>

## 6. Property, Plant and Equipment

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Plant and equipment	\$ 287,540	\$ 39,706	\$ 247,834	\$ 141,218	\$ 21,035	\$ 120,183
Motor vehicles	4,284	2,406	1,878	2,819	1,801	1,018
Buildings	11,475	1,921	9,554	7,882	1,116	6,766
Construction in progress	9,980	-	9,980	80,458	-	80,458
	<u>\$ 313,279</u>	<u>\$ 44,033</u>	<u>\$ 269,246</u>	<u>\$ 232,377</u>	<u>\$ 23,952</u>	<u>\$ 208,425</u>

## 7. Mineral Properties and Related Expenditures

	Chirano	Tasiast	Other Projects	Total
<b>Balance, December 31, 2007</b>	\$ 79,563	\$ 248,668	\$ 6,670	\$ 334,901
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>	<u>\$ 126,016</u>	<u>\$ 249,276</u>	<u>\$ 6,106</u>	<u>\$ 381,398</u>
Exploration and evaluation costs	6,302	15,868	2,206	24,376
Development expenditure	49,207	12,392	-	61,598
Change in estimated asset retirement obligations	-	1,333	-	1,333
Amortization	(13,765)	(23,779)	-	(37,544)
Write-off of deferred exploration costs	-	-	(2,110)	(2,110)
<b>Balance, December 31, 2009</b>	<u>\$ 167,760</u>	<u>\$ 255,090</u>	<u>\$ 6,202</u>	<u>\$ 429,052</u>

Included in the above balance for Chirano are \$32.1 million (December 31, 2008: \$7.9 million) of stripping costs incurred subsequent to commencement of production. Amortization of these costs amounted to \$2.3 million (2008: \$nil).

### *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 Tasiast Gold Mine 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 \$2.1 million (2008: \$849,000) of previously deferred exploration costs relating to Ghanaian properties whose interest was relinquished or no longer deemed prospective.

## **8. Bank Loan**

Early in the year, the Company retired a bank loan collateralized by marketable securities and guarantees from its two operating subsidiaries.

During the year, the Company finalized a \$30 million revolving facility, collateralized by a pledge of CGML and TMLSA shares, an assignment of advances to subsidiaries, and guarantees from CGML and TMLSA. Interest on the outstanding amount of this facility is charged at US LIBOR plus 3.75% per annum. Commitment fees vary between 1.0 and 1.25% per annum depending on the extent of utilization of the line. No funds were drawn from this facility during the year.

## **9. 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, 2009			Year Ended
	Chirano	Tasiast	Total	December 31, 2008
<b>Balance, beginning of year</b>	\$ 7,223	\$ 2,545	\$ 9,768	\$ 9,144
Change in estimate	-	1,333	1,333	207
Incurred in the year	-	-	-	(86)
Accretion expense	289	102	391	503
<b>Balance, end of year</b>	<b>\$ 7,512</b>	<b>\$ 3,980</b>	<b>\$11,492</b>	<b>\$ 9,768</b>

The Company has calculated the fair value of the asset retirement obligation using a discount rate of 4.0%.

The estimated total future undiscounted cash flows to settle the asset retirement obligations are \$10.0 and \$5.5 million (December 31, 2008: \$11.4 and \$4.1 million) for Chirano and Tasiast, respectively, incurred over approximately eight to thirteen years.

## 10. Share Capital

- (a) The Company has an unlimited number of without par value common shares authorized for issuance.

Shares Issued and Outstanding:	Number of Shares		Amount	
	Year ended December 31,		2009	2008
	2009	2008	2009	2008
<b>Balance, beginning of year</b>	206,095,970	187,814,970	\$ 607,914	\$ 556,920
Issued by short-form prospectus (i)	22,000,000	17,150,000	126,966	45,804
Issued on exercise of options	3,730,664	1,131,000	17,512	3,551
Fair value of options exercised (ii)	-	-	5,851	1,639
<b>Balance, end of year</b>	<b>231,826,634</b>	<b>206,095,970</b>	<b>\$ 758,243</b>	<b>\$ 607,914</b>

- (i) On February 12, 2009, the Company raised gross proceeds of \$132.5 million (CAD \$165 million) by issuing 22.0 million common shares at a price of CAD \$7.50 per share under a short form prospectus financing.

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

- (ii) Upon exercise of options 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, 2009 totaled \$5.6 million (2008: \$3.4 million).

- (b) As at December 31, 2009, the Company had only 1,849 common shares available under its existing stock option plan (the "Plan") to grant new incentive stock options to directors, officers, employees and consultants of the Company. Accordingly, in the fourth quarter, the Company established a second stock option plan (the "New Plan") under which the Company has an additional 8 million common shares available to grant stock options to directors, officers, employees and consultants. The New Plan is subject to approval by shareholders. The term of any option granted under both plans is 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 under both plans as at December 31, 2009 is as follows:

Range of exercise prices	Number of outstanding options	Weighted average exercise price (CAD \$)	Weighted average remaining contractual life	Exercisable options	
				Number of outstanding options	Weighted average exercise price (CAD \$)
\$5.56 - \$6.25	1,830,000	6.08	0.8 year	1,830,000	6.08
\$6.26 - \$10.09	2,278,336	6.79	2.1 years	1,531,669	6.69
\$10.09 - \$13.29	1,625,000	12.90	3.7 years	50,000	10.10
	<u>5,733,336</u>	8.30	1.9 years	<u>3,411,669</u>	6.41

Changes in issued and outstanding options under the both plans were as follows:

	Year ended December 31, 2009		Year ended December 31, 2008	
	Options outstanding	Weighted average exercise price (CAD \$)	Options outstanding	Weighted average exercise price (CAD \$)
<b>Balance, beginning of year</b>	7,379,000	5.84	7,595,000	5.34
Cancelled (i)	(1,025,000)	6.81	-	7.03
Exercised	(3,730,664)	5.30	(1,131,000)	3.42
Forfeited	(110,000)	6.08	(425,000)	7.09
Granted (i), (ii) and (iii)	3,220,000	9.92	1,340,000	7.03
<b>Balance, end of year</b>	<u>5,733,336</u>	8.30	<u>7,379,000</u>	5.84

- (i) These options were granted subject to shareholders' approval under the Plan in the early part of 2009 and were subsequently withdrawn.
- (ii) It includes 1,175,000 stock options granted conditionally under the New Plan at an exercise price of CAD \$13.29. The granting of these options is subject to shareholders' approval.
- (iii) The weighted average fair value of the options granted during 2009 was \$2.66 (2008: \$2.32). The fair value related to the options described under (ii) will be measured as at the shareholders' approval date.

The Company uses the Black-Scholes option pricing model in calculating the fair value of stock options. In 2009, the key assumptions used were a risk-free rate of between 0.5% and 2.2% (2008: 1.8% to 3.0%), an expected volatility of between 47% and 80% (2008: 36% to 53%), an expected option life of between one and four years, no dividend payments, and a forfeiture rate of between zero and 12%, adjusted for actual forfeitures if different.

At December 31, 2009, there was \$1.8 million (December 31, 2008: \$1.7 million) of unearned future compensation costs relating to unvested stock options expected to be recognized over the course of the next three years.

- (c) In the fourth quarter of 2009, the Company established a SAR's Plan under which the Company can grant SAR's up to a number equal to 2% of its issued and outstanding common shares to officers, employees and consultants or other eligible participants. Under the SAR's Plan, SAR recipients are entitled to receive the cash value equal to the increase in the price of Red Back common shares between the time of grant and the time of the exercise of the SAR's. The term and vesting conditions of any SAR granted under the plan is fixed by the Board of Directors. No SAR recipient is entitled to a grant of SAR's exceeding 1% of the Company's outstanding issued shares.

	Year ended December 31, 2009	
	Outstanding SAR's	Fair Value
<b>Balance, December 31, 2008</b>	-	\$ -
Granted	1,550,000	-
Change in value	-	1,513,077
<b>Balance, December 31, 2009</b>	<u>1,550,000</u>	<u>\$ 1,513,077</u>

Unearned future compensation costs for unvested SAR's expected to be recognized over the course of the next two years account for \$1.2 million (December 31, 2008: \$nil) of the above balance.

- (d) In the fourth quarter of 2009, the Company established a DSU's Plan under which the Company can grant DSU's up to a number equal to 1% of its issued and outstanding common shares to non-executive directors of the Board. Under the DSU's Plan, DSU recipients are entitled to receive the cash value of Red Back common shares at the time of their retirement. The vesting conditions of any DSU granted under the plan are fixed by the Board of Directors.

	Year ended December 31, 2009	
	Outstanding DSU's	Fair Value
<b>Balance, December 31, 2008</b>	-	\$ -
Granted	99,000	1,382,297
Change in value	-	9,371
<b>Balance, December 31, 2009</b>	<u>99,000</u>	<u>\$ 1,391,668</u>

- (e) In the fourth quarter of 2009, the Company also granted cash-settled share-based awards based on the increase in Red Back's share price during the period of time in 2009 when no equity-based compensation plan was available to certain officers and employees. The estimated unearned future compensation costs relating to these incentive awards at December 31, 2009 was \$4.9 million and is expected to be recognized over the course of the next two years.

## 11. Contributed Surplus

	Year Ended December 31,	
	2009	2008
<b>Balance, beginning of year</b>	\$ 10,506	\$ 8,146
Fair value of stock-based compensation	2,546	3,999
Fair value of options exercised	(5,851)	(1,639)
<b>Balance, end of year</b>	<u>\$ 7,201</u>	<u>\$ 10,506</u>

## 12. Related Party Transactions

Transactions for the years ended December 31, 2009 and 2008 and year end balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$0.5 million (2008: \$0.5 million) for management services provided by a company related to the President of the Company. At December 31, 2009 and 2008, \$nil was due to this company.
- (b) Paid \$0.4 million (2008: \$0.5 million) to a company controlled by a director for management services. At December 31, 2009 and 2008, \$nil was due to this company.
- (c) In 2009, received \$1.2 million from the sale of a single gold bar to a company controlled by a director at the then prevailing spot market price of gold.

### 13. Income Taxes

The estimation of the Company's future tax assets and liabilities involves significant judgment around a number of assumptions. Judgment 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,	
	2009	2008
Future income tax assets:		
Non-capital loss carry-forwards	\$ 11,102	\$ 9,112
Capital assets	13,645	4,961
Deferred expenditures	15,293	17,143
Share issuance costs	3,553	2,945
	<u>43,593</u>	<u>34,161</u>
Valuation allowance	<u>(25,423)</u>	<u>(25,188)</u>
	18,170	8,973
Future income tax liabilities:		
Capital assets	(24,053)	(8,241)
Marketable securities	-	(732)
Acquisition of Tasiast	<u>(49,117)</u>	<u>(49,117)</u>
	<u>\$ (55,000)</u>	<u>\$ (49,117)</u>

The non-capital loss carry-forwards have expiry dates ranging between 2010 and 2029.

The future income tax liability of \$49.1 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.

As a result of a tax audit during 2009, CGML received a notice of re-assessment of prior years' income tax returns denying approximately \$90 million of past, current and future income tax deductions and imputing additional revenues of approximately \$30 million, both related to the tax treatment of hedge contracts entered into in 2005 as part of the original bank project financing required for the construction of the Chirano Gold Mine. CGML is vigorously defending its original tax filing position. The final outcome of this matter is not determinable at this time. Should the re-assessment be ultimately upheld, it would result in the recognition of additional future income tax liabilities of approximately \$22 million.

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

	Year Ended December 31,	
	2009	2008
<b>Net income before income taxes</b>	<b>\$ 117,311</b>	<b>\$ 57,394</b>
Tax at the applicable rate of 26.6% (2008: 24.8%)	\$ 31,163	\$ 14,234
Non-taxable income	(19,768)	(17,657)
Unrecognized benefit of current year's losses	810	1,444
Benefit of previously unrecognized items	(9,886)	(8,140)
Non-deductible expenses	5,831	5,612
<b>Income tax expense (recovery)</b>	<b>\$ 8,150</b>	<b>\$ (4,507)</b>

#### 14. Segmented Information

	Year Ended December 31, 2009			
	Ghana	Mauritania	Others	Total
Gold revenues	\$ 164,960	\$ 153,429	\$ -	\$ 318,389
Operating costs and expenses	(78,008)	(64,613)	-	(142,621)
Depreciation, amortization and accretion	(20,644)	(37,354)	-	(57,998)
Profit from mining operations	66,308	51,462	-	117,770
Other income (costs)	(14,487)	1,638	4,241	(8,608)
Net income (loss)	<b>\$ 51,821</b>	<b>\$ 53,100</b>	<b>\$ 4,241</b>	<b>\$ 109,162</b>

	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)
Profit from mining operations	31,247	30,691	-	61,938
Other income (costs)	(985)	3,712	(2,764)	(37)
Net income (loss)	<b>\$ 30,262</b>	<b>\$ 34,403</b>	<b>\$ (2,764)</b>	<b>\$ 61,901</b>

	As at December 31, 2009			
	Ghana	Mauritania	Others	Total
Current assets	\$ 62,630	\$ 69,666	\$ 130,047	\$ 262,343
Capital assets, net of depreciation and amortization	274,950	422,403	1,435	698,788
	337,580	492,069	131,482	961,131
Current liabilities	(21,166)	(16,115)	(6,904)	(44,185)
Non-current liabilities	(8,702)	(4,123)	(1,748)	(14,573)
Future income tax liabilities	(8,758)	(46,242)	-	(55,000)
	<b>\$ 298,954</b>	<b>\$ 425,589</b>	<b>\$ 122,830</b>	<b>\$ 847,373</b>

	As at December 31, 2008			Total
	Ghana	Mauritania	Others	
Current assets	\$ 36,430	\$ 30,171	\$ 45,278	\$ 111,879
Capital assets, net of depreciation and amortization	200,886	388,541	396	589,823
	<u>237,316</u>	<u>418,712</u>	<u>45,674</u>	<u>701,702</u>
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)
	<u>\$ 212,042</u>	<u>\$ 351,238</u>	<u>\$ 14,700</u>	<u>\$ 577,980</u>

	Additions to Property Plant and Equipment			Total
	Ghana	Mauritania	Others	
Year ended December 31, 2009	\$ 41,499	\$ 39,403	\$ -	\$ 80,902
Year ended December 31, 2008	\$ 37,578	\$ 64,548	\$ -	\$ 102,126

The Company operates only in the gold sector.

## 15. Commitments

As at December 31, 2009, the Company had purchase commitments totaling approximately \$17.1 million (December 31, 2008: \$16.3 million) including \$8 million for Tasiast's 2010 expansion fees.

## 16. 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 has recently completed capital expansion programs at its two mining operations. The Company has funded these programs from operating cash flow and existing treasury. Management has also finalized a corporate bank debt facility to provide it with additional flexibility in pursuing internally generated growth initiatives, 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, 2009.

**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  
Michael Hunt  
Corporate Governance and Nominating  
Committee  
Harry Michael  
Robert Chase  
Audit Committee  
Corporate Governance and Nominating  
Committee  
Compensation Committee  
Brian Edgar  
Lead Director  
Audit Committee  
Compensation Committee  
Corporate Governance and Nominating  
Committee  
George Brack  
Audit Committee  
Compensation Committee

**AUDITORS**

PricewaterhouseCoopers, LLP  
Vancouver, British Columbia, Canada

**LEGAL COUNSEL**

Blake Cassels & Graydon LLP  
Vancouver, British Columbia, Canada

**CORPORATE OFFICE**

Suite 2101 - 885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E8  
Telephone: (604) 689-7842  
Fax: (604) 689-5452

**REGISTERED AND RECORDS OFFICE**

Blake Cassels & Graydon LLP  
2600 - 595 Burrard Street  
P.O. Box 49314  
Vancouver, British Columbia  
Canada V7X 1L3

**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