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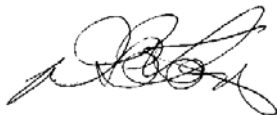
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Management's Responsibility

The accompanying consolidated financial statements, Management's Discussion and Analysis and all of the other information included in the Annual Report have been prepared by and are the responsibility of management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgements based on currently available information. The Company has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial information is reliable and relevant, and that assets are properly accounted for and safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, appointed by the Board and comprised of independent directors, which meets with the independent auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements have been audited by Ernst & Young LLP Chartered Accountants. The independent auditors have unrestricted access to the Audit Committee. Their report outlines the scope of their examination and opinion on the consolidated financial statements.



David A. Seton
Chairman and Chief Executive Officer
March 30, 2009



Peter Tiedemann
Chief Financial Officer
March 30, 2009

Report of Independent Auditors

To the Shareholders of Olympus Pacific Minerals Inc.

We have audited the consolidated balance sheets of Olympus Pacific Minerals Inc. as at December 31, 2008 and 2007, and the consolidated statements of operations and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2008. 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 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Olympus Pacific Minerals Inc. as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the each of the three years in the period ended December 31, 2008 in conformity with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 30, 2009

OLYMPUS PACIFIC MINERALS INC.

Consolidated Balance Sheets

As at (Canadian dollars)	December 31 2008	December 31 2007
ASSETS		
Current		
Cash	\$ 5,096,418	\$ 26,656,146
Accounts receivable and prepaid expenses	3,045,997	1,079,598
Inventory (note 12)	3,759,934	1,293,463
	<u>11,902,349</u>	<u>29,029,207</u>
Long-term		
Property, plant and equipment (note 6)	14,298,403	11,094,563
Mineral properties (note 3)	9,564,422	9,818,923
Deferred exploration and development costs (note 3)	30,708,439	21,707,466
	<u>54,571,264</u>	<u>42,620,952</u>
	<u><u>66,473,613</u></u>	<u><u>71,650,159</u></u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	4,423,154	3,163,155
Capital lease obligations (note 11)	698,281	388,390
Asset retirement obligation (note 4)	138,405	135,333
	<u>5,259,840</u>	<u>3,686,878</u>
Long-term		
Asset retirement obligation (note 4)	1,282,002	721,686
	<u>1,282,002</u>	<u>721,686</u>
	<u><u>6,541,842</u></u>	<u><u>4,408,564</u></u>
Commitments and contractual obligations (note 9), Income taxes (note 13)		
SHAREHOLDERS' EQUITY		
Share capital (note 7a)	104,206,522	104,159,423
Contributed surplus (note 7a)	7,600,309	6,482,499
Deficit	(51,875,060)	(43,400,327)
	<u>59,931,771</u>	<u>67,241,595</u>
	<u><u>\$ 66,473,613</u></u>	<u><u>\$ 71,650,159</u></u>



David A Seton
Chairman & Chief Executive Officer



Jon Morda
Director & Chairman of
of Audit Committee

OLYMPUS PACIFIC MINERALS INC.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31 (Canadian dollars)	2008	2007	2006
Sales - Gold	\$ 7,755,495	\$ 6,996,257	\$ 1,644,040
Cost and expenses			
Cost of sales	6,204,527	5,523,193	1,535,891
Amortization	2,630,938	1,925,458	596,176
Management fees and salaries	3,092,628	2,770,770	1,515,417
Professional fees	397,183	782,058	353,402
Travel	644,390	574,569	425,895
Investor relations and promotion	373,857	527,466	256,207
Consulting fees	634,726	393,438	315,763
Office and general administrative	684,453	417,526	508,269
Transfer agent and regulatory fees	199,480	161,409	189,237
Royalty expense	137,141	112,336	47,960
Shareholders' information	96,125	80,492	37,767
General exploration	69,295	74,442	158,700
Stock-based compensation (note 7b)	1,063,160	2,272,717	617,071
	16,227,903	15,615,874	6,557,755
Other (income) expense			
Interest income	(590,313)	(694,985)	(272,156)
Interest expense	2,923	130,615	127,262
Write-off of deferred exploration costs (note 3)	922,920	-	438,931
Write-off of deferred transaction costs	-	265,488	-
Impairment charge (note 3)	-	-	4,280,000
Loss on disposal of capital assets	19,551	-	-
Debt extinguishment costs (note 5)	-	54,060	-
Foreign exchange loss/(gain)	(352,756)	566,894	(8,865)
	2,325	322,072	4,565,172
Loss and comprehensive loss for the year	\$ 8,474,733	\$ 8,941,689	\$ 9,478,887
Basic and diluted loss per common share	\$ 0.04	\$ 0.04	\$ 0.06
Weighted average number of common shares outstanding	232,402,999	200,364,897	164,678,791

Consolidated Statements of Deficit

For the years ended December 31 (Canadian dollars)	2008	2007	2006
Deficit			
Balance, beginning of year	\$ 43,400,327	34,458,638	24,979,751
Loss for the year	8,474,733	8,941,689	9,478,887
Deficit, end of the year	\$ 51,875,060	43,400,327	34,458,638

Consolidated Statements of Cash Flows

For the years ended December 31 (Canadian dollars)	2008	2007	2006
Operating activities :			
Loss for the year	(8,474,733)	(8,941,689)	(9,478,887)
<i>Items not affecting cash</i>			
Amortization	2,630,938	1,925,458	596,176
Amortization of deferred financing costs	-	-	81,090
Stock-based compensation expense	1,063,160	2,272,717	617,071
Write-off of deferred transaction costs	-	265,488	-
Loss on disposal of capital assets	19,551		
Accretion expense	52,650	37,211	29,097
Write-off of deferred exploration costs	922,920	-	438,931
Impairment charge	-	-	4,280,000
Foreign exchange	(136,974)	231,101	10,286
Reclamation costs	(177,582)	(79,388)	-
<i>Changes in non-cash working capital balances</i>			
Accounts receivable and prepaid expenses	(1,966,399)	624,385	(1,452,499)
Accounts payable and accrued liabilities	1,341,093	961,315	292,661
Inventory	(2,242,049)	(676,418)	(357,529)
Cash used in operating activities	(6,967,424)	(3,379,820)	(4,943,603)
Investing activities :			
Deferred exploration and development costs	(9,066,810)	(7,612,887)	(5,072,261)
Acquisition of property, plant and equipment	(5,210,778)	(1,627,525)	(3,747,249)
Deferred transaction costs	-	-	(209,238)
Cash used in investing activities	(14,277,588)	(9,240,412)	(9,028,748)
Financing activities :			
Shares issued	-	36,829,000	16,543,966
Warrants issued	-	1,092,963	-
Shares issued on warrants exercised	-	2,394,987	-
Repayment of debt	-	(2,156,497)	-
Repayable loan	-	-	2,314,200
Share issue cost	20,655	(2,068,049)	(1,195,261)
Capital lease payments	(649,329)	(367,800)	-
Cash provided by financing activities	(628,674)	35,724,604	17,662,905
Increase in cash during the year	(21,873,686)	23,104,372	3,690,554
Cash - beginning of the year	26,656,146	4,101,536	404,987
Effect of foreign exchange rate changes on cash	313,958	(549,762)	5,995
Cash - end of the year	\$ 5,096,418	26,656,146	4,101,536

Notes to Financial Statements

1. Nature of Operations

Olympus Pacific Minerals Inc. (the “Company” or “Olympus”) and its subsidiaries are engaged in the acquisition, exploration, development, mining and re-instatement of gold bearing properties in Southeast Asia. The Company focuses its activities on two properties located in Central Vietnam - the Bong Mieu Gold property and the Phuoc Son Gold property.

The Company is considered to be in the development stage as a significant amount of the available funding is directed towards exploration activities and developing projects.

2. Basis of Presentation and Significant Accounting Policies

Basis of presentation and consolidation

These audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These policies are consistent with accounting principles generally accepted in the United States in all material respects except as outlined in note 16. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant inter-company balances and transactions have been eliminated.

Change in Accounting Policies

The Company has adopted the following new Canadian Institute of Chartered Accountants (CICA) guidelines effective for the Company’s first quarter commencing January 1, 2008:

Section 3862 and 3863 - Financial Instruments – Disclosure and Presentation

The CICA issued Section 3862 and Section 3863, which are effective for fiscal years beginning on or after October 1, 2007. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company’s financial position and performance and the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and at the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement user’s understanding of the significance of financial instruments to the Company’s financial position, performance and cash flows. The Company has adopted Section 3862 and additional disclosures are included in note 10. On adopting Section 3863, there was no effect on the Company’s financial statements.

Section 1535 - Capital Disclosures

The CICA issued Section 1535 which establishes standards for disclosing qualitative and quantitative information about an entity’s capital and how it is managed in order to enable users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. The Company has adopted Section 1535 and disclosure is included in note 7.

Section 1400, General Standards of Financial Statement Presentation

The CICA issued Section 1400 which provides revised guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern.

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The main features of the changes are as follows:

- Management is required to make an assessment of an entity's ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;
- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; and
- When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

On adopting Section 1400, there was no effect on the Company's financial statements.

Section 3031 - Inventories

The CICA issued Section 3031 which supersedes Section 3030 and converges Canadian standards with International Accounting Standard 2, Inventories. This standard requires that: inventories be measured at the lower of cost and net realizable value; the allocation of overhead be based on normal capacity; the use of the specific cost method for inventories that are not normally interchangeable or goods and services produced for specific purposes; the use of a consistent cost formula for inventory of a similar nature and use; and the reversal of previous write-downs of inventory to net realizable value, when there is a subsequent increase in the value of inventories. Disclosure requirements include the Company's policies, carrying amounts, amounts recognized as an expense, write-downs and subsequent reversal of write-downs. On adopting Section 3031, there was no effect on the Company's financial statements.

Future Accounting Changes

Section 1582, 1601, and 1602 – Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2008, the CICA issued Sections 1582, Business Combinations; 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests. These sections replace the former Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 and Section 1601 are harmonized with IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements.

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides additional guidance on determining the fair value of financial instruments, where the Company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including financial derivatives. This EIC applies to interim and annual financial statements beginning on or after January 20, 2009.

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Section 3064 - Goodwill and Intangible Assets and Section 3450, Research and Development Costs

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and other Intangible Assets. This section provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

Furthermore, the CICA agreed to the withdrawal of Section 3450, Research and Development Costs and incorporate the provisions of the International Accounting Standards, IAS 38, related to research and development costs into Section 3064. Research and development costs are of substantially the same character as other expenditures that need to be evaluated against the criteria for recognition of intangible assets. Accordingly, this standard prohibits the capitalization of costs associated with research activities.

Section 1000, Financial Statement Concepts

The CICA concluded that the guidance in Section 1000, Financial Statement Concepts permitting deferral of costs based on matching revenues and expenses should be deleted to prevent the inappropriate capitalization of costs.

Management is currently in the process of determining the impact of these standards on the Company's consolidated financial statements.

Significant Accounting Policies

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Critical accounting estimates used in the preparation of the consolidated financial statements involve judgement and are, or could be, affected by significant factors that are beyond management's control. Actual results could differ from these estimates.

Cash

Over 93 percent of the Company's cash at December 31, 2008 is comprised of cash deposited with two major financial institutions in Canada, in interest bearing bank deposit accounts. The remaining cash is held in bank deposit accounts in Vietnam and the Philippines.

Mineral properties

The Company's recoverability of the recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realisation through mining operations or by sale. The Company is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs, comprised of cash paid and/or the assigned value of share consideration, relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the project to which they relate is placed into production, sold or

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where management has determined impairment. The capitalized cost of the mineral properties is tested for recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized if it is determined that the carrying amount is not recoverable and exceeds fair value. The net proceeds from the sale of a portion of a mineral project which is sold before that project reaches the production stage will be credited against the cost of the overall project. The sale of a portion of a mineral project which has reached the production stage will result in a gain or loss recorded in the statement of operations. Mineral properties are amortized on the basis of units produced in relation to the proven and probable reserves available on the related project following commencement of commercial production. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Asset Retirement Obligations

Asset Retirement Obligations (ARO) occur as a result of the acquisition, development or construction and normal operation of mining property, plant and equipment, due to government controls and regulations protecting the environment and public safety on the closure and reclamation of mining properties. The recorded ARO reflects the expected cost, taking into account the probability of particular scenarios. The difference between the upper and lower end of the range of assumptions can be significant; and, consequently, changes in assumptions could have a material impact on the fair value of the ARO and future earnings in the period of change. Estimates of cash flow earlier in the mine life are more subjective and significant estimates and judgements are made when estimating the fair value of AROs. Additionally, it is reasonably possible that circumstances could occur during or by the end of the mine life that will require material revisions to the AROs. Management prepares estimates of the timing and amounts of the cash flows when an ARO is incurred. Many factors can cause the expected cash flows to change such as, but not limited to, changes in regulations, laws or enforcement, mine life changes, new facilities, or changes in reserves.

The Company recognizes the fair value of an asset retirement obligation as a liability, in the period of disturbance or acquisition associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of that asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted to reflect the passage of time or changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the long-lived asset that is depreciated over the remaining life of the asset.

Deferred exploration and development costs

The Company defers all exploration and development expenses relating to mineral projects and areas of geological interest until the project to which they relate is placed into production, sold or where management has determined impairment. These costs will be amortized over the proven and probable reserves available on the related property following commencement of production.

Foreign currency translation

The monetary assets and liabilities of the Company that are denominated in currencies other than the Canadian dollar are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations. Effective from January 1, 2009 the company will change its reporting currency from Canadian dollars to US dollars. All of the company's revenue and the majority of its expenditures are transacted in US dollars.

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Property, plant and equipment

The Company records building, plant, equipment and infrastructure at cost. Buildings, plant and equipment, and infrastructure involved in service, production and support are amortized, net of residual value, using the straight-line method, over the estimated productive life of the asset. Productive lives for these assets range from 3 to 10 years, but the productive lives do not exceed the related estimated mine life based on proven and probable reserves. Computer hardware and software is amortized using the straight-line method over three years.

In the normal course of its business, the Company has entered into certain leasing arrangements whose conditions meet the criteria for the leases to be classified as capital leases. For capital leases, the Company records an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments over the lease term. In the case of all leasing arrangements, there is transfer of ownership of the leased assets to the Company at the end of the lease term and therefore the Company amortizes these assets on a basis consistent with other owned assets.

Asset impairment – Long-lived assets

The Company reviews and evaluates the carrying value of its mineral properties, property, plant and equipment and deferred exploration and development costs for impairment when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable. In assessing the impairment for these assets, if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and recorded on a discounted basis. All long-lived assets at a particular operation or project are combined for purpose of performing the recoverability test and estimating future cash flows. Future cash flows are based on management's best estimates of future recoverable mine production, expected sales prices (considering current and historical prices), production levels and costs and further expenditures. These cash flows are subject to significant measurement uncertainty and material write-downs could occur if actual results differed from the estimates and assumptions used.

Stock-based compensation

In accordance with Section 3870, the Company uses the fair-value method of accounting for stock options granted to employees and directors. Under this method, the fair value of stock options is estimated at the grant date and is recognized as an expense over the vesting period. Significant assumptions used under the Black-Scholes valuation model, which is used to calculate the fair value of the options, include the expected term and stock price volatility. The term assumption represents the average estimated length of time that the option would remain outstanding before being exercised or forfeited. The Company has used historical data to determine volatility in accordance with the Black-Scholes model. For any assumptions used in option valuation, we update our historical data used to calculate specific assumptions such as expected term, volatility and forfeiture rates and we also update any assumptions that require current market data on an ongoing basis.

The majority of the Company's stock options vest on the passage of time and continued service requirements. For some of the stock options granted, the options vest based on meeting two of three criteria: (a) specified production levels, (b) specified minimum share price and market capitalization and /or (c) minimum threshold of ounces of gold geological resources for the Company.

Compensation expense is recognized for these options based on the best estimate of the number of options that are expected to eventually vest and the estimate is revised, if necessary, if subsequent information indicates the expected number of options that vest are likely to differ from initial estimates. The Company applies an estimated forfeiture rate when calculating the expense. Any consideration paid upon the exercise of stock options or warrants plus any previously recognized amounts in contributed surplus is credited to common shares.

The Company has a bonus share program that allows non-executive employees to elect to take their bonus in either cash or double the cash amount in common shares. If the employee chooses the share bonus, the common shares will be received one year after the last day of the bonus period. If the employee chooses the cash bonus, the cash is received within the same fiscal year. If an

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employee terminates employment before the one year of service, the bonus reverts back to cash without double up and is paid out on termination. The cash portion of the bonus is recognized as a liability, on a quarterly basis, as the employee services are performed. If the employee elects to be paid in common shares, a further share based equity award is recognized based on the market price of the Company's shares at the date of grant and is recognized over the one year additional service period as compensation expense and contributed surplus. On the issuance of the shares, the liability plus amounts in contributed surplus are credited to common shares.

Loss per share

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is determined assuming that proceeds received on exercise would be used to purchase common shares at the average market price during the period. As there is currently a loss per share, there is no dilutive effect from any of the outstanding options and warrants.

Future income taxes

Future income taxes are recorded using the liability method. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stripping Costs

Stripping costs incurred during the production phase of a mine are accounted for as variable production costs that are included in the costs of the inventory produced during the period that the stripping costs are incurred.

Revenue Recognition

Revenue from the sale of gold and by-products, such as silver, are recognized when; (i) the significant risks and rewards of ownership have been transferred, (ii) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sales of goods, and the extent to which goods may be returned, and (iii) ultimate collection is reasonably assured. The risks and rewards of ownership for the gold and silver reside with the mine site until the point that gold and silver are uplifted from the gold room at the mine site and the doré bars are consigned for transport to the refinery. The realized sales price per troy ounce of gold is the AM-fixing of the London Bullion Market in US dollars as prescribed under the sales contract.

For accounting purposes, the refining and transport charges are classified as part of cost of sales and revenues from by-products are netted against cost of sales.

Inventory

Inventory is comprised of ore in stockpiles, operating supplies, doré bars and gold in circuit and is recorded at the average cost, determined from the weighted average of the cost of similar items at the beginning of a month and the cost of similar items added during the month. Doré bars and gold in circuit inventory cost includes the laid-down cost of raw materials plus direct labour and an allocation of applicable overhead costs. Gold in circuit inventory represents gold in the processing circuit that has not completed the production process, and is not yet in a saleable form.

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Ore in stockpiles is measured by estimating the number of tonnes added and removed from the stockpile, the number of contained ounces (based on assay data) and estimated metallurgical recovery rates (based on the expected processing method). Costs are allocated to a stockpile based on relative values of material stockpiled and processed using current mining costs incurred up to the point of stockpiling the ore, including applicable overhead, depreciation, depletion and amortization relating to mining operations, and removed at the stockpiles average cost per recoverable unit.

The Company values finished goods, ore in stockpiles, and gold in circuit at the lower of cost or net realizable value.

Interest Cost Accounting

Interest cost is considered an element of the historical cost of an asset when a period of time is necessary to prepare it for its intended use. The Company capitalizes interest costs to assets under development or construction while development or construction activities are in progress. Capitalizing interest costs ceases when construction of the asset is substantially complete and it is ready for its intended use. In that case, the specific interest rate is used as well as the weighted average interest rate on other obligations if the asset expenditures exceed the specific borrowing.

Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Cash

Cash is classified as held-for-trading and recorded at fair value. The fair value is calculated using published price quotations in an active market, where there is one. Otherwise fair value represents cost plus accrued interest, which is reasonable given its short-term nature.

Accounts Receivables, Accounts Payable, Accrued Liabilities and Capital Leases

These are classified as loans and receivables or as other financial liabilities all of which are measured at amortized cost.

Long-term debt

Long-term debt is classified as other financial liabilities and accounted for at amortized cost. Transaction costs related to issuing debt are netted against the loan facility.

3. Mineral Properties and Deferred Exploration and Development Costs

	Mineral Properties		Deferred Exploration and Development Costs	
	December 31 2008	December 31 2007	December 31 2008	December 31 2007
Bong Mieu	\$3,944,000	\$3,944,000	\$11,353,606	\$6,535,527
Phuoc Son	6,116,904	6,116,904	19,726,900	14,834,584
Capcapo	-	-	922,920	678,541
Other	-	-	1,120	-
	10,060,904	10,060,904	32,004,546	22,048,652
Accumulated amortization ⁽¹⁾	(496,482)	(241,981)	(373,187)	(341,186)
Write-off ⁽²⁾⁽³⁾			(922,920)	
Total	\$9,564,422	\$9,818,923	\$30,708,439	\$21,707,466

- (1) Accumulated amortization relates to the Bong Mieu central mine which commenced commercial production on October 1, 2006.
- (2) Write-off of \$922,920 of Deferred Exploration costs in 2008 relates to the Capcapo property where exploration activities have been halted due to the uncertainty of the current economic climate and the outcome of community consultation.
- (3) During the fourth quarter of 2006, management determined that the Bong Mieu Central Gold mine was not reaching originally estimated future throughput. Consequently, an impairment charge of \$4,280,000 was taken on the Bong Mieu Central Fold mine deferred exploration and development costs.

Bong Mieu Gold Property

The Company holds Mining and Investment Licences covering 30 square kilometres within the Bong Mieu gold property area. The Investment Licence covers three deposits: Bong Mieu Central Gold mine (an open pit), Bong Mieu East (a potentially open-pit deposit) and Bong Mieu Underground (an underground deposit). Olympus acquired this project in 1997. Olympus owns 80 percent and the Company's Vietnamese partner owns 20 percent of the Bong Mieu property. The Company constructed the Bong Mieu Central open pit mine and associated infrastructure in 2005 and 2006, and commercial gold production commenced in the fourth quarter of 2006. The Company pays a 2 percent royalty based on 80 percent of the revenues of Bong Mieu to Zedex Minerals Limited. The Company also pays a royalty equal to 3 percent of the sales price to the Vietnam Government.

Phuoc Son Gold Property

The Company holds an 85 percent interest in the Phuoc Son Gold Project with a focus of exploration, development and production of gold and other potential minerals in the specified project area, located in Phuoc Son and Nam Giang districts in the Quang Nam Province. In 2003, the Company's subsidiary, New Vietnam Mining Company ("NVMC"), entered into a joint venture with Mien Trung Industrial Company ("Minco"), a mining company controlled by the local provincial government, to form the Phuoc Son Gold Company ("PSGC"). PSGC has an investment license on the Phuoc Son property. NVMC's initial interest in PSGC is 85 percent and

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Minco has a 15 percent interest. After five years, from the end of the period in which PSGC makes a profit for 12 consecutive months, Minco can increase its interest by 15 percent to 30 percent if Minco chooses to acquire such interest from NVMC by paying fair market value. After 20 years, Minco can increase its interest to a total of 50% if Minco chooses to acquire such additional 20% interest from NVMC by paying fair market value. Fair market value shall be determined by using an independent accounting firm to perform the fair market value assessment and that assessment will be considered final and binding for both parties. If Minco does not proceed on exercising its right of acquisition within three months from the dates of entitled acquisition, Minco will be considered as having waived its right to acquire the interest.

Ore mined from Phuoc Son is currently being trucked to the Bong Mieu processing facility under a temporary trucking permit received on March 17th, 2009. The temporary trucking permit expires on May 18th, 2009 during which time Phuoc Son is permitted to truck up to 12,000 tonnes of ore.

The directors and management of the Company currently expect that the trucking permit will be extended without significant impact on operations. However, should the temporary trucking permit not be extended or a new trucking permit received, the Company would need to consider alternative methods to process the Phuoc Son deposit.

4. Asset Retirement Obligation

	December 31, 2008	December 31, 2007
Balance, beginning of the year	\$ 857,019	\$ 949,495
Liabilities incurred	492,329	94,059
Liabilities settled	(177,582)	(79,388)
Foreign exchange adjustment	195,991	(144,358)
Accretion	52,650	37,211
Balance, end of the period	1,420,407	857,019
Current portion	138,405	135,333
Non-current portion	\$ 1,282,002	\$ 721,686

The asset retirement obligation relates to the Bong Mieu and Phuoc Son properties in Vietnam. The Company estimated the cost of rehabilitating the sites at \$1,420,407 over the next 8 years. Such estimated costs have been discounted using a credit adjusted risk-free rate of 6.9 percent.

The \$1,420,407 will be spent as follows: 2009 – \$138,405; 2010 – \$258,399; 2011 – \$252,786; 2012 – \$646,885; 2013 – \$ 38,654; and 2014 and thereafter – \$85,278.

5. Loan Facility

On June 27, 2007 the US\$2 million Non-Revolver Debt Facility (the "Facility") with Macquarie Bank Limited ("MBL") of Sydney, Australia was repaid in full. Concurrently, MBL elected to exercise its share purchase warrants to acquire 5,376,092 common shares of the Company at a price of \$0.4347 for gross proceeds of \$2,336,987.

6. Property, Plant & Equipment

	December 31, 2008			December 31, 2007		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Building	\$ 1,082,950	\$ 441,741	\$ 641,209	\$ 866,835	\$ 221,481	\$ 645,354
Leasehold improvements	150,189	82,170	68,019	103,005	46,088	56,917
Machinery and equipment	8,709,595	2,856,755	5,852,840	6,706,032	1,284,822	5,421,210
Office equipment, furniture and fixtures	1,261,520	750,836	510,684	1,097,257	509,395	587,862
Vehicles	445,144	291,576	153,568	400,711	222,128	178,583
Infrastructure	4,057,445	1,277,635	2,779,810	3,737,315	547,073	3,190,242
Capital Assets in progress	4,292,273	-	4,292,273	1,014,395	-	1,014,395
	<u>\$19,999,116</u>	<u>\$ 5,700,713</u>	<u>\$14,298,403</u>	<u>\$13,925,550</u>	<u>\$ 2,830,987</u>	<u>\$11,094,563</u>

7. Capital Stock

Capital Management

The Company defines capital that it manages as its shareholders equity. In the past year, the Company has not raised cash by issuing equity instruments. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it has the ability to provide returns for shareholders in the future and support its long term growth strategy.

The Company's capital structure reflects the requirements of a company focused on significant growth in a capital intensive industry. The Company may face lengthy development lead times, as well as risks associated with raising capital, rising capital costs and timing of project completion because of the availability of resources, permits and other factors beyond its control. The operations are also affected by potentially significant volatility of the gold mineral cycles.

The Company continually assesses the adequacy of its capital structure and makes adjustments within the context of its strategy, the mineral resources industry, economic conditions and the risk characteristics of our assets. To adjust or maintain the capital structure, the Company may obtain additional financing or issue new equity instruments.

The Company, at this stage, manages its capital structure by performing the following:

- Maintaining a liquidity cushion in order to address the operational and/or industry disruptions or downturns;
- Preparing detailed budgets by project that are approved by the Board for development, exploration and corporate costs;
- Routine internal reporting and Board meetings to review actual versus budgeted spending; and
- Detailed project financial analysis to determine new funding requirements.

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At December 31, 2008, the Company has no debt and a cash balance of \$5,096,418 which exceeds the minimum liquidity cushion as determined by management and is sufficient to meet current budgeted expenditures.

Total managed capital as at December 31, 2008 was \$59,931,771 [December 31, 2007 - \$67,241,595]. The Company has no obligation to pay dividends on share capital.

a) Common Shares

The Company is authorized to issue an unlimited number of common shares with one vote per share and no par value per share. The following table shows movements in the capital stock of the Company for the years-ended December 31, 2007 and 2008.

	Number of Shares	Amount \$
Common shares, January 1, 2007	164,678,791	\$66,074,507
Private placement (1)	21,428,571	12,000,000
Prospectus offering (2)	38,461,538	23,846,154
Issued upon exercise of options	1,978,565	1,231,986
Issued upon exercise of warrants	5,476,092	3,393,060
Issued on exercise of over-allotment (2)	216,394	134,164
Bonus common shares issued	137,060	86,090
Share issue costs (3)	-	(2,606,538)
Common shares, December 31, 2007	232,377,011	\$104,159,423
Share issue costs	-	20,654
Bonus common shares issued	46,090	26,445
Common shares, December 31, 2008	232,423,101	\$104,206,522

The following table shows movements in contributed surplus of the Company for years ended December 31, 2008 and 2007.

	December 31, 2008	December 31, 2007
Balance, beginning of the year	\$6,482,499	\$4,347,990
Options granted and vested during the year	1,012,482	1,849,504
Bonus common shares vested during the year	116,580	69,309
Bonus common shares issued	(11,252)	(34,379)
Valuation of Warrants, net of issue costs (2 and 3)	-	1,092,963
Options and warrants exercised	-	(1,381,376)
Agents' compensation options and warrants granted (3)	-	538,488
Balance, end of the year	\$7,600,309	\$6,482,499

- (1) On March 19, 2007, the Company completed a non-brokered private placement of 21,428,571 shares at a price of \$0.56 per share, for gross proceeds of \$12,000,000 and net proceeds of \$11,967,772.
- (2) On August 10, 2007, the Company completed an Offering (the "Offering") of 38,461,538 Units of the Company at a price of \$0.65 per unit for gross proceeds of \$25,000,000 and net proceeds of \$22,891,000. Each Unit consisted of one common share and one-half of one common share purchase warrant. The Units were separated into common shares [a total of 38,461,538] and common share purchase warrants [a total of 19,230,769] immediately following the closing of the Offering. Of the Offering price of \$0.65 per Unit, the Company has, for accounting purposes, allocated \$0.62 to each common share and \$0.03 to each one-half common share purchase warrant. Each whole common share purchase warrant is exercisable for one common share of the Company at \$0.80 and expires August 9, 2009.

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The Company also granted the Agents an over-allotment option to purchase additional Shares at a price of \$0.62 and additional whole common share purchase warrant at a price of \$0.06 for a period of 30 days from closing. The over-allotment option was partially exercised on September 7, 2007 and as a result, a total of 216,394 common shares of the Company at \$0.62 and 323,947 whole common share purchase warrants at \$0.06 were issued for gross proceeds of \$153,601 and net proceeds of \$144,385.

- (3) Agents for the August 10, 2007, Offering were paid a cash commission equal to 6 percent of the gross proceeds and were granted non-transferable compensation options to acquire 2,307,692 Agent's units. Each compensation option is exercisable for one Agent's unit at \$0.65 and expires on August 10, 2009. Each Agent's Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole Agent's common share purchase warrant will entitle the holder to acquire one common share of the Company at a price of \$0.80 per common share and will expire on August 10, 2009.

b) Stock Options

On June 7, 2007, the shareholders approved a new stock option plan to replace the existing plan. Under the plan, options to purchase shares of the Company may be granted to directors, officers, employees and consultants of the Company. The maximum number of shares that may be issued under the plan is 12 percent (on a non-diluted basis) of the Company's issued and outstanding shares. Options granted under the plan have a maximum term of five years and vesting dates are determined by the Board of Directors on an individual basis at the time of granting.

The following table provides a summary of the stock option activity for the years ended December 31, 2008 and December 31, 2007.

	December 31, 2008		December 31, 2007	
	Number of Options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Outstanding, beginning of the year	17,592,334	\$ 0.53	11,477,500	\$ 0.39
Granted	4,121,850	0.42	8,950,000	0.70
Exercised	-	-	(1,978,565)	0.43
Forfeited/ Expired	<u>(2,125,000)</u>	0.42	<u>(856,601)</u>	0.58
Outstanding, end of the period	<u>19,589,184</u>	0.52	<u>17,592,334</u>	0.53
Options exercisable at the end of the period	<u>14,789,890</u>	0.52	<u>14,249,925</u>	0.49

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The following table summarizes information about the stock options outstanding for the year ended December 31, 2008.

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding As at December 31, 2008	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable As at December 31, 2008	Weighted Average Exercise Price \$
\$0.30 - 0.36	5,530,000	1.74	0.32	5,530,000	0.32
\$0.40 - 0.45	4,350,184	3.81	0.40	577,537	0.43
\$0.50 - 0.55	609,000	1.86	0.52	609,000	0.52
\$0.60 - 0.65	4,850,000	3.40	0.65	4,409,527	0.57
\$0.75	4,250,000	3.19	0.75	3,663,826	0.75
	<u>19,589,184</u>		0.52	<u>14,789,890</u>	0.52

During the year ended December 31, 2008, 4,121,850 [2007 – 8,950,000] options were granted and were valued, for accounting purposes, at \$470,048 [2007 - \$2,756,350] using the Black-Scholes model. The assumptions for the 2008-granted stock option series were; Expected volatility 80.3%-82.8%, Risk free interest rate 3.25%-3.75%, expected life of 3 and 4 years, and no expected dividends. The exercise prices were determined based on the Volume Weighted Average Price (VWAP) which is the listing of the stock activities for five business days from the grant date. The vesting periods of these options are: one-third of the options will vest after January 2, 2009, one-third after January 2, 2010 and the remaining one-third will vest after January 2011.

The total share compensation expense recognized for stock options granted in the current and prior years was \$1,012,482 [2007 - \$1,849,504].

c) Warrants

The following table shows movements in number of warrants of the Company for the years ended December 31, 2008 and December 31, 2007.

	December 31, 2008		December 31, 2007	
	Number of Warrants	Weighted Average Exercise Price \$	Number of Warrants	Weighted Average Exercise Price \$
Outstanding, beginning of the year	21,344,716	0.78	7,266,092	0.47
Granted (see note 7a)	-	-	19,554,716	0.80
Exercised	-	-	(5,476,092)	0.43
Expired (i)	<u>(1,790,000)</u>	0.58	-	-
Outstanding, end of the period	<u>19,554,716</u>	0.80	<u>21,344,716</u>	0.78

(i) The warrants that expired related to the March 31, 2006 private placement.

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The following is a summary of the warrants outstanding as at December 31, 2008.

Exercise Prices	Number Outstanding As at December 31, 2008	Expiry date
\$0.80	19,230,769	August 10, 2009
\$0.80	323,947	September 7, 2009
	<u>19,554,716</u>	

d) Bonus Share Program for Non-Executive Employees

For the bonus periods ending in 2007 and 2006, employees who opted for their bonus to be paid in common shares are entitled to receive, subject to 1 year service requirement, 508,150 common shares in 2008 and 2007.

In 2008, for the bonus period from July 15, 2007 to January 15, 2008, employees who opted for their bonus to be paid in common shares are entitled to receive, subject to a 1 year service requirement, 366,600 common shares on January 15, 2009. On the grant date, the fair value of these share awards including the cash bonus is \$176,600.

The total compensation expense recognized for the bonus share program for the year ended December 31, 2008 was \$130,615 [2007 - \$380,566].

e) Deferred Share Units

In second quarter 2008, the Company set up a deferred share unit plan for the non-executive members of the Board of Directors. Under this plan, fees are paid as deferred share units ["DSUs"] whose value is based on the market value of the common shares. Under terms of the plan, the DSU plan will be an unfunded and unsecured plan. The deferred share units are paid out in cash upon retirement/resignation. The value of the DSU cash payment changes with the fluctuations in the market value of the common shares. Compensation expense for this plan is recorded in the year the payment is earned and changes in the amount of the deferred share unit payments as a result of share price movements are recorded in management fees and salaries in the Consolidated Statements of Operation in the period of the change. DSUs granted during the year ended December 31, 2008 totalled 466,668 units. Liabilities related to this plan are recorded in accrued liabilities in the Consolidated Balance Sheet and totalled \$35,000 as at December 31, 2008.

8. Related Party Transactions

The Company entered into the following related party transactions during the 2008 year:

	Year-to-date December 31	
	2008	2007
Consulting and legal fees	\$110,653	\$133,839
Management fees	\$889,836	\$1,228,499
Reimbursement of expenses	\$301,626	\$249,591
Royalties	\$143,031	\$112,336

As of December 31, 2008, accounts payable was nil and accrued expenses were \$57,355 in respect of these transactions.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties. The above figures represent amounts either paid or accrued.

Legal and consulting fees

Consulting services were provided by Jura Trust and Spencer Enterprises Limited which were associated with John Seton, a director of the Company. Legal services were provided by Claymore Law where John Seton is a principal. The services provided are not under contract as the consulting and legal services are provided when required.

Management fees and reimbursement of expenses

Management fees and reimbursement of expenses were incurred on behalf of the Company to companies controlled by officers of the Company. The companies that were paid for management fees and reimbursement of expenses include the following: Orangué Holdings Limited associated with David Seton in 2008 and 2007; Wholesale Products Trading Limited associated with Peter Tiedemann in 2008 and 2007; Momentum Resources International Pty Limited associated with Colin Patterson in 2008 and 2007; Action Management Limited associated with Charles Barclay in 2008 and 2007, and Cawdor Holdings Limited associated with Russell Graham in 2008. Expenses that were reimbursed include the following costs: airfare, accommodation, meals, car rental, telecommunications, computer, training courses, conferences and licenses.

Royalties

On January 1, 2006, Zedex Minerals Limited (Zedex) (a significant shareholder of the Company) was assigned a 2 percent gross production royalty, on the Bong Mieu sales, less incremental costs when Ivanhoe assigned to Zedex all its rights, title and interest in and to the debt, gross production royalties and royalty agreement. The royalty is calculated as 2 percent of the net sales amount equal to the revenues for gold and silver less refining and delivery costs.

9. Commitments and Contractual Obligation

As at December 31, 2008

Payment Due	Total	Less than one year	Year 2	Year 3	Year 4	Year 5 and thereafter
Capital lease obligations	698,281	698,281	-	-	-	-
Operating leases	488,188	234,634	91,422	81,095	81,037	-
Purchase obligations - supplies & services	2,371,582	2,185,629	185,953	-	-	-
Purchase obligations - capital	355,342	355,342	-	-	-	-
Asset retirement obligations	1,420,407	138,405	258,399	252,786	646,885	123,932
Total	5,333,800	3,612,291	535,774	333,881	727,922	123,932

10. Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and capital lease obligations. The carrying amount of cash, receivables, capital leases, payables and accruals is a reasonable approximation of fair value due to their short-term maturities.

The Company's activities expose it to a variety of financial risks; market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company's corporate office and foreign operations evaluate financial risks. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

Market and commodity price risk

The profitability of the operating mine of the Company is related to the market price of gold and silver. At present, the Company does not use derivative instruments. The Company's market risk exposure, for metal prices and exchange rates, with respect to its accounts receivable is minimal as payment is typically received within one week of shipment.

During the year the company sold gold at the weighted average price of US\$883.

A change of US \$100 in the gold price per ounce the Company received would have changed the Company's net loss by approximately \$808,000 in 2008.

Foreign exchange risk

The Company operates in Canada, Vietnam, and the Philippines. The functional and reporting currency of the parent company is Canadian dollars. The functional currency of significant subsidiaries is US dollars. The subsidiaries transact in a variety of currencies but primarily in the US dollar and Vietnamese Dong.

Effective from January 1, 2009 the company will change its reporting currency from Canadian dollar to US dollar and all of its revenue and the majority of its expenditure are transacted in US dollar.

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Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates (“transaction exposures”) and because the financial statements of the Company may vary on consolidation into Canadian dollars (“translation exposures”).

The most significant transaction exposure arises in the corporate office in Canada. The balance sheet of the corporate office includes US dollar cash. The corporate office is required to revalue the Canadian dollar equivalent of the US dollar cash at each period end. Foreign exchange gains and losses from the cash are recorded in earnings. As of December 31, 2008, foreign exchange rate fluctuations of +/-5% on the US dollar cash on hand would, everything else being equal, not have a significant effect on loss from operations for the year ended December 31, 2008.

Translation exposure arises when the Entity consolidates its financial statements in Canadian dollars. The monetary assets and liabilities of the Company that are denominated in currencies other than the Canadian dollar are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

At present, the Company does not hedge foreign currency transaction or translation exposures.

Interest rate risk

The Company was previously exposed to interest rate risk as interest on the variable interest rate US\$2 million loan facility fluctuated due to changes in the LIBOR market interest rates. The loan was repaid in full on June 27, 2007.

There were no derivative instruments related to interest rates outstanding as at December 31, 2008 and December 31, 2007.

Credit risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. The company minimises its exposure by holding cash with two major financial institutions in Canada.

One customer accounts for all sales and trade accounts receivable. Credit risk exposure is mitigated because the Company can sell the gold doré bars it produces to many different refineries and payment from the refinery is typically received within one week of shipment. The Company’s receivables are all current.

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company’s objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents. As at December 31, 2008, the Company was holding cash and cash equivalents of \$5,096,418. Over 93 percent of the Company’s cash balance is comprised of cash deposited with two major Canadian financial institutions in interest bearing bank deposit accounts. A table of commitments and contractual obligations of the Company are presented in note 9.

11. Capital Lease Obligations

The Company has capital leases for projects related to the Bong Mieu and Phuoc Son properties.

	December 31, 2008	December 31, 2007
Total minimum lease payment	\$ 698,281	\$ 388,390
Less: current portion	(698,281)	(388,390)
	\$ -	\$ -

12. Inventory

	December 31, 2008	December 31, 2007
Doré Bars	\$ 190,446	\$ 293,829
Ore in stockpiles	381,302	126,311
Gold in circuit	213,537	115,388
Mine operating supplies	2,974,649	757,935
Total	\$ 3,759,934	\$ 1,293,463

13. Income Taxes

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2008	2007	2006
Loss	\$(8,474,000)	\$(8,942,000)	\$(9,479,000)
Expected tax benefit	(2,838,000)	(3,051,000)	(3,223,000)
Issue costs	(294,000)	(345,000)	(215,000)
Foreign tax differential	213,000	(843,000)	1,418,000
Foreign exchange on Vietnam losses	1,251,000	-	-
Non deductible expenses	(1,743,000)	2,129,000	116,000
Other	866,000	-	-
Benefit of current year loss not recognized	2,545,000	2,110,000	1,904,000
Total income tax recovery	\$-	\$-	\$-

The components of the Company's future income tax assets are as follows:

	2008	2007	2006
Non-capital losses carried forward	\$7,769,000	\$5,731,000	\$4,189,000
Issue costs	657,000	760,000	616,000
Capital assets	68,000	53,000	25,000
Resource related deductions	610,000	636,000	692,000
Future income tax asset	9,104,000	7,180,000	5,522,000
Future income tax liability	(1,825,000)	-	-
Net future income tax asset	7,279,000	7,180,000	5,522,000
Valuation allowance	(7,279,000)	(7,180,000)	(5,522,000)
Net future income tax asset	\$-	\$-	\$-

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The company has non-capital loss carry forwards of \$31,059,000 (2007 -\$24,520,000), the benefit of which have not been recognized in these financial statements and which can be used to reduce future taxable income in the years up to and including 2028.

	Year of loss	Note	Amount	Expiry Date
<hr/>				
Non-capital loss carry forwards				
Canada	2008	1	\$3,364,000	2028
Vietnam	2008	2	1,375,000	2013
Canada	2007	1	\$7,993,000	2027
Vietnam	2007	2	1,411,000	2012
Canada	2006	1	2,789,000	2026
Vietnam	2006	2	8,470,000	2011
Canada	2005	3	1,143,000	2015
Canada	2004	3	2,431,000	2014
Canada	2003	4	858,000	2010
Canada	2002	4	1,225,000	2009
<hr/>				
Total non-capital loss carry forwards			\$31,059,000	
<hr/>				

- (1) - Loss carry forward of 20 years
- (2) - Vietnam has a loss carry forward of 5 years
- (3) - Loss carry forward of 10 years
- (4) - Loss carry forward of 7 years

Subject to certain restrictions, the Company also has resources expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resources have not been recognized in these consolidated financial statements.

With respect to the Company's foreign subsidiaries, Vietnamese tax laws are open to interpretation and, in respect to mining locations, there are no clear precedents. Management considers that the Company has made an adequate provision for liabilities to the Vietnamese Government based on correspondence with the Vietnamese authorities and external advice received, there is however a risk that additional payments will be levied on the Company.

14. Memorandum of Agreement

On November 23, 2006, a Memorandum of Agreement and Supplement to Memorandum of Agreement (collectively, the "MOA") was signed with Abra Mining and Industrial Corporation ("AMIC") and Jabel Corporation ("Jabel") which allows the Grantee (defined as the Company and "a Philippine national corporation to be identified by the Company") to acquire an option to earn a 60% interest in the Capcapo Property (as defined below) upon completing a specified level of expenditures on the Capcapo Property. All previously capitalised costs in relation to this project have been written-off in 2008, refer to note 3.

15. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

16. Differences from Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with Canadian GAAP. A reconciliation of our income statements, balance sheets and statements of cash flows between US GAAP and Canadian GAAP is presented below together with a description of the significant measurement differences affecting these financial statements.

a) Exploration and development expenditures

For Canadian GAAP purposes, the Company capitalizes exploration and development costs incurred on our properties after proven and probable reserves have been found as well as on properties where the Company has found non-reserve material that do not meet all the criteria required for classification as proven or probable reserves. The determination as to whether the existence of non-reserve material should result in the capitalization of mine exploration and development costs is based on various factors, including: the existence and nature of known mineralization; the location of the property (for example, whether the presence of existing mines and ore bodies in the immediate vicinity increases the likelihood of development of a mine on the property); the results of recent drilling on the property; and the existence of a pre-feasibility or feasibility study or other analysis to demonstrate that mineralization is expected to be commercially recoverable. Under US GAAP, exploration and development expenditures incurred on properties where mineralization has not been classified as a proven and probable reserve under Securities Exchange Commission ("SEC") Industry Guide No.7 are expensed as incurred. Accordingly, certain expenditures are capitalized for Canadian GAAP purposes but expensed under US GAAP. Accordingly, any amortization, impairment charges or write-offs on deferred development and exploration costs under Canadian GAAP would be reversed under US GAAP as these costs have already been expensed. During 2008 Phuoc Son reported proven and probable reserves and completed a positive feasibility study as announced on April 1, 2008. Since this time all exploration and development costs on the property have been capitalised under US GAAP, totaling \$3,518,324. No exploration and development costs have been capitalised relating to Bong Mieu as no feasibility study has been completed.

b) Production Start Date

Different criteria are applied under Canadian GAAP as compared to U.S. GAAP for determining the production start date of a mine for accounting purposes. The production start date for the Bong Mieu Central Open pit (Ho Gan) mine, which began producing gold during 2006, was July 1, 2006 under U.S. GAAP and October 1, 2006 under Canadian GAAP. Once a mine is considered to be in the production stage, sales, cost of sales, depreciation and amortization and inventory are recorded. As a result, under Canadian GAAP, these sales, cost of sales, depreciation and amortization and inventory were capitalized to deferred development costs for the three months ended September 30, 2006. This results in a further difference in amortization expense as a result of the differing carrying value of the mineral properties and capital assets.

Under U.S. GAAP, the production start date is determined by a number of factors including when all major capital expenditures have been completed for a mine, completion of a reasonable period of testing, the ability to produce gold in a saleable form and whether production / sales and extraction prior to production start date are considered de minimus. Under Canadian GAAP, the production start date is based on whether all major capital expenditures have been made, anticipated activity levels have been reached such as recovery rate, mining, crushing and processing tonnes per day and the ability to consistently extract and produce gold. Under Canadian GAAP, incidental revenue does not necessarily infer that production stage has been reached. The criteria that resulted in the accounting difference would be the de minimus sales / production and extraction criteria resulting in the earlier production start date under U.S. GAAP.

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c) Asset Impairment – Long-Lived Assets

Under US GAAP, the Company's impairment analysis of the US GAAP carrying values of its mineral properties and property, plant and equipment determined that no impairment had occurred as the estimated probability weighted undiscounted cash flows associated with these assets exceeded the respective carrying values.

For the years ended December 31		2008			2007		
	Notes	Canadian GAAP	Adjustments	US GAAP	Canadian GAAP	Adjustments	US GAAP
Current assets		\$11,902,349	\$-	\$11,902,349	\$29,029,207	\$-	\$29,029,207
Long-term assets							
Mineral properties	(b)	9,564,422	(37,500)	9,526,922	9,818,923	(37,500)	9,781,423
Capital assets(i)	(b)	14,298,403	(79,332)	14,219,071	11,094,563	(79,332)	11,015,231
Deferred exploration and development costs	(a)	30,708,439	(27,190,115)	3,518,324	21,707,466	(21,707,466)	-
		54,571,264	(27,360,947)	27,264,318	42,620,952	(21,824,298)	20,796,654
Total Assets		\$66,473,613	\$(27,306,947)	\$39,166,667	\$71,650,159	\$(21,824,298)	\$49,825,861
Total Liabilities		6,541,842	-	6,541,842	4,408,564	-	4,408,564
Total Shareholders' equity		59,931,771	(27,306,947)	32,624,824	67,241,595	(21,824,298)	45,417,297
Total liabilities and Shareholders' equity		\$66,473,613	\$(27,306,947)	\$39,166,667	\$71,650,159	\$(21,824,298)	\$49,825,861

(i) Under Canadian GAAP, capitalized interest is recorded as an addition to deferred development costs and under US GAAP, capitalized interest is recorded as an addition to capital assets.

d) Reconciliation of consolidated net income

For the years ended December 31	Notes	2008	2007	2006
Net loss under Canadian GAAP		\$8,474,733	\$ 8,941,689	\$9,478,887
Sales	(b)	-	-	(1,193,954)
Cost and expenses	(a) & (b)	-	-	1,536,989
Exploration and development expenditures	(a)	6,405,569	7,982,620	5,128,332
Reverse impairment charge	(a)	-	-	(4,280,000)
Reverse write-down	(a)	(922,920)	-	(438,931)
Net loss and comprehensive loss under US GAAP		\$13,957,382	\$16,924,309	\$10,231,323
Basic & diluted loss per share		\$0.06	\$0.08	\$0.06

e) Consolidated statements of cash flow under US GAAP

Exploration and development expenditures that were capitalized under Canadian GAAP, but expensed under US GAAP represent the differences in cash flows from operating and investing activities between US GAAP and Canadian GAAP. Cash flows under US GAAP were as follows:

For the years ended December 31	2008	2007	2006
Activities			
Operating	(13,372,993)	(10,992,707)	(10,015,864)
Investing	(7,872,019)	(1,627,525)	(3,956,487)
Financing	(628,674)	35,724,604	17,662,905
Cash and equivalents at the beginning of year	26,656,146	4,101,536	404,987
Effect of foreign exchange rate changes on cash	313,958	(549,762)	5,995
Cash and equivalent at end of year	5,096,418	26,656,146	4,101,536

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f) US GAAP Recent Developments

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141R, "Business Combinations" ("FAS 141R") which replaces FAS 141 and establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. FAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption of FAS 141R is prohibited. The Company will assess the impact of FAS 141R in the event it enters into a business combination for which the expected acquisition date is subsequent to the required effective date.

In December 2007 the FASB issued FAS 160, Non-controlling Interests in Consolidated Financial Statements, which is effective for fiscal years beginning after December 15, 2008. Under FAS 160, the non-controlling interest will be measured at 100% of the fair value of assets acquired and liabilities assumed. Under current standards, the non-controlling interest is measured at book value. For presentation and disclosure purposes, non-controlling interests will be classified as a separate component of shareholders' equity. In addition, FAS 160 will change the manner in which increase/decreases in ownership percentages are accounted for. Changes in ownership percentages will be recorded as equity transactions and no gain or loss will be recognized as long as the parent retains control of the subsidiary. When a parent company deconsolidates a subsidiary but retains a non-controlling interest, the non-controlling interest is re-measured at fair value on the date control is lost and a gain or loss is recognized at that time. Finally, under FAS 160, accumulated losses attributable to the non-controlling interests are no longer limited to the original carrying amount, and therefore non-controlling interests could have a negative carrying balance. The provisions of FAS 160 are to be applied prospectively with the exception of the presentation and disclosure provisions, which are to be applied for all prior periods presented in the financial statements. Early adoption is not permitted. The Company has reviewed the standards of FAS 160 and has not yet determined the impact.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FAS 133, which requires enhanced disclosures about an entity's derivative and hedging activities. The standard requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with USGAAP for nongovernmental entities. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect SFAS 162 to have a material effect on its consolidated financial statements.

In May 2008, the FASB issued SFAS 163, Accounting for Financial Guarantee Insurance Contracts and an interpretation of FAS 60. This SFAS applies to insurance enterprises it will therefore have no impact on the Company's financial reporting.

END OF NOTES TO FINANCIAL STATEMENTS