



RUSORO MINING LTD.
Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

Auditors' Report

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**To the Shareholders of
Rusoro Mining Ltd.**

We have audited the consolidated balance sheets of Rusoro Mining Ltd. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These consolidated 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 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants

Vancouver, Canada
April 12, 2010

RUSORO MINING LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

	2009	2008
	\$	\$
ASSETS		
Cash	10,420	2,245
Short-term investments	3,806	-
Receivables (Notes 5 and 14)	3,357	9,089
Inventories (Note 6)	51,366	16,598
Prepaid expenses and deposits (Note 14)	8,088	9,063
Assets held for sale (Note 22)	-	2,771
Current assets	<u>77,037</u>	<u>39,766</u>
Receivables (Note 5)	13,041	6,616
Property, plant and equipment (Notes 7 and 14)	675,185	721,938
Mineral properties (Notes 8 and 14)	268,794	275,884
	<u>1,034,057</u>	<u>1,044,204</u>
LIABILITIES		
Accounts payable and accrued liabilities (Notes 9 and 14)	29,959	34,451
Income taxes payable	2,812	1,671
Current portion of convertible loan (Notes 11 and 14)	57,935	-
Current liabilities	<u>90,706</u>	<u>36,122</u>
Accrual for termination benefits	915	783
Asset retirement obligations (Note 10)	3,125	2,631
Convertible loan (Notes 11 and 14)	-	71,733
Future income tax liability (Note 17)	264,405	280,827
	<u>359,151</u>	<u>392,096</u>
NON-CONTROLLING INTEREST		
	<u>208</u>	<u>-</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 12(a))	736,087	674,556
Equity component of convertible loan (Note 11)	4,733	6,310
Contributed surplus (Note 12(d))	121,674	114,807
	<u>862,494</u>	<u>795,673</u>
Accumulated other comprehensive (loss) income (Note 13)	(5,558)	23,966
Deficit	(182,238)	(167,531)
	<u>(187,796)</u>	<u>(143,565)</u>
	<u>674,698</u>	<u>652,108</u>
	<u>1,034,057</u>	<u>1,044,204</u>

Nature of operations and going concern assumption – Note 1

Commitments and contingencies – Note 20

Subsequent events – Note 24

APPROVED BY THE BOARD:

“George Salamis” , Director

George Salamis

“Gordon Keep” , Director

Gordon Keep

See accompanying notes to the consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

	2009	2008
	\$	\$
REVENUES	72,373	70,287
COSTS AND EXPENSES		
Mining operating expenses	39,390	63,896
Mining amortization	10,225	17,544
	49,615	81,440
INCOME (LOSS) FROM MINING OPERATIONS	22,758	(11,153)
General and administrative (Note 14)	9,355	19,741
Stock-based compensation (Note 12(b))	6,843	22,838
Interest on convertible loan	13,047	7,149
Foreign exchange (gain) loss	(1,068)	1,636
Impairment of mineral properties (Note 8)	10,954	19,257
(Gain) on repurchase of convertible loan (Note 11)	(2,206)	-
(Gain) on transfer of mineral properties (Note 8)	-	(1,646)
Litigation and unsuccessful acquisition (Notes 4(b), 14 and 20(b)(ii))	796	3,348
Other expenses	1,276	349
	38,997	72,672
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(16,239)	(83,825)
Current income taxes expense	2,579	1,611
Recovery of future income taxes	(3,495)	(13,189)
	(916)	(11,578)
LOSS BEFORE NON-CONTROLLING INTEREST	(15,323)	(72,247)
Non-controlling interest	(961)	-
NET LOSS	(16,284)	(72,247)
Deficit, beginning of year	(167,531)	(95,284)
Repurchase of convertible loan (Note 11)	1,577	-
DEFICIT, END OF YEAR	(182,238)	(167,531)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	501,074	389,132
BASIC AND DILUTED LOSS PER SHARE	(0.03)	(0.19)

See accompanying notes to the consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

	2009	2008
	\$	\$
NET LOSS	(16,284)	(72,247)
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	(29,524)	(13,286)
COMPREHENSIVE LOSS	<u>(45,808)</u>	<u>(85,533)</u>

See accompanying notes to the consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

	2009 \$	2008 \$
OPERATING ACTIVITIES		
Net loss for the year	(16,284)	(72,247)
Items not involving cash		
Amortization	10,225	17,544
Stock-based compensation (Note 12(b))	6,843	22,838
Accretion of interest on convertible loan (Note 11)	5,315	2,688
Unrealized foreign exchange gain	(656)	-
Impairment of mineral properties (Note 8)	10,954	19,257
Gain on transfer of mineral properties (Note 8)	-	(1,646)
Write-down of receivables (Note 5)	-	1,015
Accretion of asset retirement obligations (Note 10)	826	537
Gain on sale of investments	-	(161)
Loss on sale of short-term investments	14	-
Recovery of future income taxes	(3,495)	(13,189)
Gain on repurchase of loan (Note 11)	(2,206)	-
Non-controlling interest	961	-
	<u>12,497</u>	<u>(23,364)</u>
Asset retirement costs (Note 10)	(64)	(173)
Receivables non-current	(6,399)	(7,172)
Accrual for termination benefits non-current	126	797
Changes in non-cash working capital items (Note 16)	(18,876)	(1,636)
	<u>(12,716)</u>	<u>(31,548)</u>
INVESTING ACTIVITIES		
Net cash paid in Hecla-Venezuela Acquisition (Note 4(a))	-	(29,039)
Expenditures on mineral properties	(11,182)	(19,326)
Expenditures on property, plant and equipment	(6,994)	(22,597)
Proceeds on sale of subsidiary	-	325
Purchase of short-term investments	(39,636)	-
Redemption of short-term investments	17,024	-
Proceeds on sale of short-term investment	18,792	-
Proceeds on sale of investments	-	691
	<u>(21,996)</u>	<u>(69,946)</u>
FINANCING ACTIVITIES		
Gross proceeds from shares issued in public offering (Note 12(a)(iv))	64,636	-
Share issue costs (Note 12(a)(iv))	(4,355)	-
Repayment of note payable	(500)	-
Repayment of short-term borrowings	-	(522)
Repayment of loan payable on acquisition	-	(2,500)
Proceeds on issuance of convertible loan (Note 11)	-	75,355
Repurchase of convertible loan (Note 11)	(16,907)	-
Cash received upon the exercising of share warrants (Note 12(a))	-	354
	<u>42,874</u>	<u>72,687</u>
Impact of foreign exchange rate changes on cash	13	(300)
	<u>8,175</u>	<u>(29,107)</u>
INCREASE (DECREASE) IN CASH		
Cash– beginning of year	2,245	31,352
CASH– END OF YEAR	<u>10,420</u>	<u>2,245</u>

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

RUSORO MINING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Expressed in thousands, except per share amounts) (US Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

Rusoro Mining Ltd. (“the Company”) was incorporated under the laws of the Province of British Columbia on March 1, 2000. The principal business activities of the Company are the operation, acquisition, exploration and development of gold mining and mineral properties in Venezuela.

The Company has received mining concessions in Venezuela for the exploration, development and exploitation of alluvial and vein gold. The concessions have been granted by the Venezuelan Ministry of Mines and Basic Industries (“MIBAM”) or by Corporacion Venezolana de Guayana (“CVG”), maturing in 20 to 25 years, with some concessions extendable for two additional subsequent periods of 10 years each.

The Company currently holds interest in two producing gold mines in Venezuela. It holds a 95% ownership interest in the Choco 10 mine (“the Choco Mine”) which was acquired on November 30, 2007 and a 50% ownership interest in the Isidora mine (“the Isidora Mine”) which was acquired on December 23, 2008 (Note 4(a)). The Company also holds various other exploration properties in different stages of exploration and development in Venezuela and a single exploration property in Honduras (Note 8).

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

As at December 31, 2009, the Company has a working capital deficit of \$13,669 including the current portion of the convertible loan of \$57,935. Management believes sufficient funds exist including cash, short-term investments and proceeds from sales of inventory to meet the Company’s obligations until June 2010. In June 2010 the Company is required to make a debt principal repayment of \$60,000 and interest payment of \$3,000 under the loan agreement entered into with a syndicate of private lenders in June of 2008 (“the Loan”) (Note 11). Management does not believe the funds described above will be sufficient to make the required debt principal repayment and interest payment in June 2010.

The Company believes it has financing options which could generate sufficient cash to service the Company’s debt requirement including, but not limited to, the following:

- a) Issuance of equity or debt securities; and
- b) Refinancing the Loan all or in part.

There is, however, no assurance that these sources of funding, or any other initiatives, will be available on terms that are acceptable to the Company. Accordingly, these consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used, that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

RUSORO MINING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) using the following significant accounting policies.

(a) Basis of Presentation and Principles of Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. All inter-company balances and transactions have been eliminated on consolidation. The principal subsidiaries of the Company as at December 31, 2009 are as follows:

Subsidiary	Ownership Interest	Status
Promotora Minera de Guayana, P.M.G., S.A.	95%	Consolidated
Minera Venrus C.A. ⁽¹⁾	50%	Proportionately Consolidated
Minera Rusoro Venezolana C.A. ⁽¹⁾	50%	Proportionately Consolidated
El Callao Gold Mining Company de Venezuela S.C.S. ⁽¹⁾	50%	Proportionately Consolidated
Proyectos Mineros del Sur, PROMINSUR, C.A.	100%	Consolidated
Corporación Aurifera de El Callo, C.A.	100%	Consolidated
Corporación Minera Choco 9 C.A.	100%	Consolidated
Venezuela Holdings (BVI) Ltd.	100%	Consolidated
Corporación 80.000 C.A.	100%	Consolidated
Lamin Laboreos Mineros C.A.	100%	Consolidated
Minería MS C.A.	100%	Consolidated
General Mining de Guayana C.A.	100%	Consolidated
Krysos Mining S.A.	100%	Consolidated
Inversiones Yuruan C.A.	100%	Consolidated

⁽¹⁾The results of Minera Venrus C.A. (“Venrus C.A.”), Minera Rusoro Venezolana C.A. (“Minera Rusoro”) (formerly Minera Hecla Venezolana C.A.) and El Callao Gold Mining Company de Venezuela S.C.S. (“El Callao Gold Mining”) have been proportionately consolidated from December 23, 2008 (Note 4(a)).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company’s management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Actual results could differ from those estimates.

The significant areas requiring the use of management estimates and assumptions include, but are not limited to, the recoverability of accounts receivable and investments; estimates of recoverable gold in process and in stockpile; write-downs of inventories to net realizable value; amortization calculations; future cash flow estimates used in impairment calculations; valuation allowances for future income tax assets; anticipated costs of asset retirement obligations; reserves for contingencies and litigation; assumptions used to value the liability and equity components of the convertible loan; assumptions used in accounting for stock-based compensation; and the fair value of assets and liabilities acquired in business combinations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(c) Foreign Currencies

The functional currency of the Company is the US dollar. The Company uses both the current and temporal methods for the translation of the financial position and operating results of the Company's subsidiaries.

The subsidiaries acquired as a result of the acquisition of a 95% ownership interest in the Choco Mine and a 95%-100% ownership interest in related exploration properties on November 30, 2007 and joint venture interest acquired on December 23, 2008 (Note 4(a)) in the Isidora Mine and related exploration properties are considered self-sustaining foreign operations and their main economic operating environment is Venezuela and their functional currency is the Venezuelan Bolivar Fuerte ("BsF"). Substantially all revenues, expenses, assets and liabilities, are denominated in BsF and have been translated into US dollars using the current rate method. Under this method, assets and liabilities are translated into US dollars at the exchange rate in effect at the end of the period. Income and expenses are translated at the exchange rate in effect during the period. Foreign exchange gains or losses arising upon translation are recognized on the consolidated balance sheet as a component of accumulated other comprehensive (loss) income, in the shareholders' equity section.

The remaining subsidiaries are considered to be integrated foreign operations and have been translated into US dollars using the temporal method. Under this method, monetary assets and liabilities are translated into US dollars at the exchange rate in effect at the end of the period while non-monetary assets and liabilities are translated using the exchange rate in effect on the date of the transaction. Income and expenses are translated at the exchange rate in effect during the period except for amortization of property, plant and equipment and impairment of mineral properties, which are translated using the same rates as the related assets. Foreign exchange gains and losses arising upon translation are included in the consolidated statement of operations.

In 2003, the Venezuelan government implemented foreign exchange controls, which fixed the rate of exchange between the Venezuelan Bolivar ("Bs") and the US Dollar. In March of 2005, the rate was fixed at Bs 2,150/\$1.00. Effective January 1, 2008 the Venezuelan government changed the name of the currency to the Venezuelan Bolivar Fuerte and modified the currency by fixing the official rate at BsF 2.15/\$1.00. On January 11, 2010 the Venezuelan government modified the currency by fixing the official exchange rate at BsF 4.30/\$1.00 for most goods and services and BsF 2.60/\$1.00 for certain priority items, such as basic foods, medicines and industrial equipment (Note 24). In October of 2005, the Venezuelan government enacted the Criminal Exchange Law, which imposes sanctions on the exchange of BsF with foreign currency unless the exchange is made by officially designated methods. The exchange regulations do not apply to transactions with certain securities denominated in BsF, which can be swapped for securities denominated in another currency effectively resulting in a swap market which provides an implicit value for the exchange rate for the BsF/US dollar ("the Implicit Exchange Rate").

The Company uses the Implicit Exchange Rate to translate BsF transactions and balances of the Company's subsidiaries.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with an original term of three months or less.

(e) Short-Term Investments

Short-term investments include highly liquid investments with an original term of one year or less, but greater than three months.

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(f) Inventories

Finished gold (doré form), gold in process and gold in stockpile are valued at the lower of average production cost and net realizable value. Net realizable value is calculated as the estimated sale price less estimated future production costs to convert inventories into saleable form. Production costs include all direct and indirect costs, including amortization of mining properties and mining plant and equipment.

Supplies are valued at the lower of average cost and replacement cost.

When the circumstances that 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) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Repairs and maintenance expenditures are charged to operations as incurred. Major improvements, and replacements, which extend the useful life of an asset, are capitalized. Mining properties, net of residual value, are amortized by the unit of production method based on proven and probable reserves. Property, plant and equipment other than mining properties are amortized on a straight-line basis, net of residual value, over the estimated useful life of the asset as follows:

Mining plant and equipment..... 2-30 years
Office and computer equipment..... 2-4 years

No amortization is charged on capital projects during the period of construction.

(h) Stripping Costs

Stripping costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations are included in the cost of inventory produced in the period in which they are incurred, except when the charges represent a betterment to the mining property. Charges represent a betterment to the mining property when the stripping activity provides access to reserves that will be produced in future periods that would not have been accessible without the stripping activity. When charges are deferred in relation to a betterment, the charges are amortized over the reserve accessed by the stripping activity using the unit of production method.

(i) Mineral Properties

The carrying value of mineral properties represent the acquisition, exploration and development costs of the Company's exploration and development projects.

(j) Impairment of Long-lived Assets

The Company reviews the recoverability of its long-lived assets annually and when events and circumstances indicate an impairment event may have occurred. The Company assesses the recoverability of its long-lived assets by determining whether their carrying value can be recovered over their remaining lives through undiscounted future cash flows. In the event that future recoverability is not supported, an impairment loss is measured and recorded based on the extent that the estimated future cash flows on a discounted cash flows are less than the carrying value.

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(k) Accrual for Termination Benefits

The Company's Venezuelan subsidiaries accrue liabilities for their workers' termination benefits, which are payable when the working relationship between the employer and an employee comes to a close. Termination benefits are an acquired right of the worker based on the provisions of the Organic Labour Law ("OLL") and the collective bargaining agreements currently in effect. The OLL and the collective bargaining agreement also call for additional benefits that are applicable under certain circumstances and the Company, has recorded an additional accrual for such liabilities.

(l) Convertible Loan

The convertible loan is initially recorded at fair value and subsequently measured at amortized cost. The convertible loan is allocated between the debt and equity components based on their respective fair values at the date of issuance and is recorded net of transaction costs. The debt component is accreted to the face value using the effective interest rate method, with the resulting charge recorded as accretion on convertible loan, which is included in interest on convertible loan in the consolidated statement of operations.

(m) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is calculated as the estimated present value of the costs related to ongoing environmental and mine closure activities required under the law or based on the Company's own remedial plans at the time the liability is incurred. The associated asset retirement costs are capitalized as part of the carrying value of the related asset and amortized over the estimated life of the related asset.

(n) Future Income Taxes

Income taxes are accounted for under the liability method. Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and other deductions carried forward to the extent that it is more likely than not that the asset will be realized. Upon business acquisitions, the allocation of the purchase price generally results in a gross-up of property, plant and equipment, and mineral properties to reflect the recognition of the future tax liabilities for the tax effect of such differences.

Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period in which the change is substantively enacted. Future income tax assets are recognized to the extent that it is considered more likely than not that the asset will be realized.

The Company's subsidiaries are mainly located in Venezuela and are therefore subject to the laws and regulations of that country with respect to income taxation matters. These laws and regulations differ from those in Canada.

(o) Share Capital

Capital stock issued for other than cash is valued at the price at which the stock trades at the time the agreement to issue the stock is made or, if such issuance is at the option of the Company, at the time the Company determines to issue such stock.

(p) Revenue Recognition

Revenue is recognized upon shipment of finished gold, when the title and the risks and rewards of ownership pass to the buyer, the selling price is fixed and determinable, persuasive evidence of an arrangement exists and collection of the sale proceeds is reasonably assured.

(q) Stock-based Compensation

The fair value of stock options grants are recorded as an expense in the consolidated statement of operations or capitalized to mineral properties with a corresponding credit to contributed surplus as the options vest. The contributed surplus is subsequently transferred to share capital on exercise of the related option.

(r) Non-controlling Interest

A 5% non-controlling interest exists in Promotora Minera de Guayana, P.M.G., S.A. ("PMG") which represents the outside interest's share of the carrying value of PMG which owns the Choco Mine.

(s) Earnings (loss) per Share

Earnings (loss) per share is calculated by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method which, for purposes of determining the weighted average number of shares outstanding, assumes that the proceeds to be received on the exercise of the stock options and warrants are applied to repurchase common shares at the average market price for the year. Outstanding stock options, warrants and equity component of convertible loan are excluded from the calculation of diluted loss per share, as they are anti-dilutive.

(t) Investment in Joint Venture

The Company conducts a portion of its business through a joint venture (Note 4(a)) under which the joint venture participants are bound by the articles of incorporation and bylaws establishing joint control over the joint venture. The Company records its proportionate share of assets, liabilities, revenue and expenses of the joint venture.

(u) Financial Instruments

The Company's financial instruments consist of cash, short-term investments, receivables, accounts payable and accrued liabilities, convertible loan and accrual for termination benefits. Cash is classified as held-for-trading and measured at fair value. Short-term investments are classified as available for sale and measured at fair value. Receivables are classified as loans and receivables and measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, convertible loan and accrual for termination benefits are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset and financial liability on initial recognition and amortized using the effective interest rate method.

(v) Purchase Price Allocation

The purchase price of an acquired business is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgment and estimates. Adjustments to fair value assessments are recorded over the purchase price allocation period, not exceeding one year from the date of acquisition.

3. CHANGES IN ACCOUNTING POLICIES

Accounting Policies Implemented During 2009

(a) Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments - Disclosures

The Company adopted the amended CICA Handbook Section 3862, *Financial Instruments - Disclosures*, which includes additional disclosure requirements regarding fair value measurements for financial instruments and liquidity risk. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements, and were effective for fiscal years ending after September 30, 2009. These disclosures are included within Note 21(a).

(b) EIC Abstract 174 - Mining Exploration Costs

Effective March 2009, the Company adopted EIC Abstract 174 - *Mining Exploration Costs*. This abstract provides additional guidance on determining when exploration costs related to mining properties can be capitalized as well as clarification on impairment indicators for exploration costs that have previously been capitalized. The adoption of this abstract did not result in a material impact on the Company's consolidated financial statements.

(c) CICA Handbook Section 3064, Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced existing CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*. This new section establishes standards for the recognition of internally developed intangible assets. The standards for the recognition and impairment testing of goodwill are carried forward unchanged. The adoption of this section did not result in a material impact on the Company's consolidated financial statements.

(d) EIC Abstract 173 – Credit Risk and Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Company adopted EIC Abstract 173 - *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. This abstract requires that credit risk be taken into account in determining the fair value of financial instruments and financial liabilities, including derivative instruments. The adoption of this abstract did not result in a material impact on the Company's consolidated financial statements.

Accounting Policies to be Implemented Effective January 1, 2010

In January 2009, the following CICA Handbook sections were issued: Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-Controlling Interests*. These standards are required for the Company's fiscal year beginning January 1, 2011. Earlier adoption is permitted which requires all three sections be adopted at the same time. The Company has early adopted these sections effective January 1, 2010. Transaction costs related to business combinations will no longer be capitalized, but rather expensed as incurred. Non-controlling interests will be classified as part of equity and net income or loss and total comprehensive income or loss will include the portion attributable to non-controlling interests.

4. ACQUISITIONS

(a) Hecla Mining Company

On July 8, 2008, the Company closed the transaction to acquire from Hecla Mining Company (“Hecla”) 100% of the outstanding shares of El Callao Gold Mining Company and Drake-Bering Holdings B.V. (“the Hecla-Venezuela Acquisition”) including their subsidiaries Minera Rusoro and El Callao Gold Mining in consideration for \$20,000 paid in cash, \$4,960 by the issuance of 4,274 common shares of the Company and acquisition costs of \$1,086. In addition, the Company paid \$906 for the working capital of the companies acquired in the Hecla-Venezuela Acquisition.

On July 4, 2008 prior to the closing of the Hecla-Venezuela Acquisition the Company entered into an agreement (“the Mixed Enterprise Agreement”) with MIBAM to create a mixed enterprise. The objective of the mixed enterprise is to carry on with gold exploration, development and operation of the Isidora Mine and exploration properties acquired in the Hecla-Venezuela Acquisition and the operation of the La Camorra mill. The La Camorra mill is an operating mill located in the El Dorado district of Venezuela for the processing of gold which was formerly owned by Hecla and is to be contributed to the mixed enterprise by Empresa de Producción Social Minera Nacional C.A. (“EMN”) which is a company owned indirectly by MIBAM. The activities of the mixed enterprise are carried out through Venrus C.A., a Venezuelan corporation incorporated on December 23, 2008 which is 50% owned by the Company and 50% owned by EMN. Based on the articles of incorporation and by-laws of Venrus C.A., the Company and EMN contractually agreed to share the continuing power to determine the strategic operating, investing and financing policies of Venrus C.A.

The nature of the assets to be effectively contributed into Venrus C.A. and the timing of their contribution is still pending. Due to the existing Mixed Enterprise Agreement that requires the contribution of the assets into Venrus C.A. and also requires that the Company pledge 50% of the shares in Minera Rusoro and El Callao Gold Mining in favour of the Venezuelan government until that contribution occurs, the incorporation of Venrus C.A. on December 23, 2008, and due to the ongoing collaboration of the Venezuelan government in determining the strategic operating, investing and financing policies of the assets acquired in the Hecla-Venezuela Acquisition, management has determined that starting December 23, 2008, proportionate consolidation of 50% of the net assets acquired in the Hecla-Venezuela Acquisition is appropriate.

The purchase consideration for the Hecla-Venezuela Acquisition is allocated 50% to the fair value of the net assets acquired in the Hecla-Venezuela Acquisition. MIBAM has agreed in the Mixed Enterprise Agreement to contribute the La Camorra mill to Venrus C.A. Since this contribution is pending and it is uncertain whether this contribution will be made, the Company’s interest in the La Camorra mill has not been recognized. Should the La Camorra mill be contributed to Venrus C.A., the accounting treatment will be determined based on the facts and circumstances at the point of contribution. The Venezuela Government has had significant involvement in determining the terms and conditions associated with the Hecla-Venezuela Acquisition. Resolution of these terms and conditions have not yet been finalized due to uncertainty of the transfer of the La Camorra mill to Venrus C.A. and uncertainty of the nature and timing of the contribution of other assets including the Isidora Mine to Venrus C.A. As part of the Mixed Enterprise Agreement, the Company paid the following which form part of the consideration for the Hecla-Venezuela Acquisition:

- (i) to transfer to an entity to be determined by MIBAM a plant for the treatment of diamonds which is currently owned by a company controlled by an officer and director of the Company. The plant will need to be purchased by the Company prior to the transfer and based on an independent valuation, a purchase price of \$2,000 has been agreed to with the owner. The Company has advanced the \$2,000 purchase price as at December 31, 2009 which is included in the consideration for the Hecla-Venezuela Acquisition; and
- (ii) to pay \$5,000 to CVG Minerven which owns 100% of EMN; and
- (iii) to transfer certain mineral properties of the Company with a fair value of \$1,975 to EMN (Note 8).

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This transaction has been accounted for as an acquisition of a 50% interest in a joint venture and the allocation of the purchase price is summarized below:

	Estimated Fair Value of Net Assets Acquired
	\$
Cash	233
Inventories – finished gold	1,450
Inventories – gold in process	2,016
Inventories – gold in stockpile	2,107
Other current assets	2,922
Property, plant and equipment	44,417
Mineral properties	2,385
Current liabilities	(2,944)
Asset retirement obligations	(721)
Future income tax liability	(15,938)
	<u>35,927</u>

	Consideration
	\$
Cash paid to Hecla	21,686
4,274 common shares issued @ \$1.16 (Notes 12(a)(i) and 16)	4,960
Fair value of plant for the treatment of diamonds	2,000
Fair value of mineral properties	1,975
Working capital adjustment (Notes 12(a)(ii) and 16)	(780)
Payment to CVG Minerven	5,000
Acquisition costs (Note 14)	1,086
	<u>35,927</u>

Due to the delay in the contribution of the assets to Venrus C.A. as required in the Mixed Enterprise Agreement, additional agreements as described below were signed in 2009 which allow Venrus C.A. to operate the assets acquired in the Hecla-Venezuela acquisition and the La Camorra mill for a period of one year from the dates of these agreements which are extendable in one year increments.

On September 8, 2009, an operation agreement was signed between EMN and Venrus C.A. which allows Venrus C.A. to operate the La Camorra mill. Venrus C.A. is responsible for preserving the condition of the La Camorra mill including repair of any environmental damage caused during the La Camorra mill's operation by Venrus C.A. Upon termination of the operation agreement, the La Camorra mill including any related improvements will be returned to the Venezuelan government for \$Nil monetary compensation. This agreement is for a period of one year from September 8, 2009 and is extendable in one year increments.

On September 17, 2009, a sublease agreement was entered between El Callao Gold Mining and Venrus C.A. which allows Venrus C.A. to perform exploration and exploitation activities in the Isidora Mine. Venrus C.A. will be obligated to pay required royalties and exploitation taxes, to comply with environmental obligations and to ensure the regular maintenance of the Isidora Mine. This agreement is for a period of one year from September 17, 2009 and is extendable in one year increments.

On September 17, 2009, a lending agreement was entered between Minera Rusoro and Venrus C.A. which allows Venrus C.A. to use the assets of Minera Rusoro in the performance of the operation of the Isidora Mine and La Camorra mill. This agreement is for a period of one year from September 17, 2009 and is extendable in one year increments.

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The above agreements do not remove the uncertainty regarding the contribution of assets into Venrus C.A. as described above and the accounting treatment as described above is unchanged from the previous year.

(b) Gold Reserve Inc.

On December 15, 2008, the Company launched an unsolicited take-over bid (“the Gold Reserve Bid”) for Gold Reserve Inc. (“Gold Reserve”). On February 18, 2009, the Company’s offer for Gold Reserve expired and because the conditions to the Company’s offer were not met, the Company did not take up any securities under the offer. The Company recorded the costs related to the Gold Reserve Bid and the resulting litigation (Note 20(b)(ii)) as an expense for litigation and unsuccessful acquisition in the consolidated statement of operations.

5. RECEIVABLES

	2009	2008
	\$	\$
VAT receivable (a)	12,943	8,124
Trade receivables (b)	-	2,413
Receivable from mining contractor (c)	1,172	2,324
Other receivables (d)	2,079	2,793
Receivables from related companies (Note 14)	204	51
Total receivables	16,398	15,705
Non-current VAT receivable (e)	(12,335)	(5,163)
Non-current receivable from mining contractor (f)	(706)	(1,453)
Receivables - non-current	(13,041)	(6,616)
Current receivables	3,357	9,089

During the year ended December 31, 2009, the Company recorded a write-down of VAT receivable of \$Nil (2008: \$1,015). This write-down relates to VAT paid on certain pre-operating costs that the Company believes will not be recoverable.

- a) VAT receivable relates to value added tax paid in Venezuela that is recoverable from the requisite authorities.
- b) Trade receivables relate to the sale of gold.
- c) Receivable from mining contractor relates to the sale of mining-fleet spare-part inventories and certain payroll recoverable from the mining contractor.
- d) Other receivables consists of GST receivable and sundry receivables.
- e) Non-current VAT receivable relates to VAT receivable that management estimates will not be recovered for at least twelve months from the balance sheet date.
- f) Non-current receivable from mining contractor relates to the sale of mining-fleet spare-part inventories and certain payroll recoverable from the mining contractor that management estimates will not be collected for at least twelve months from the balance sheet date.

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6. INVENTORIES

	2009	2008
	\$	\$
Finished gold	37,858	4,682
Gold in process	2,226	4,571
Gold in stockpile	6,754	3,634
Materials and supplies	4,528	3,711
	<u>51,366</u>	<u>16,598</u>

As at December 31, 2009 and 2008, all inventories were recorded at cost.

7. PROPERTY, PLANT, AND EQUIPMENT

	2009		
	Cost	Accumulated Amortization and Depletion	Net Book Value
	\$	\$	\$
Mining properties	605,817	(12,101)	593,716
Mining plant and equipment	109,282	(33,812)	75,470
Office and computer equipment	381	(134)	247
Construction in progress	5,752	-	5,752
	<u>721,232</u>	<u>(46,047)</u>	<u>675,185</u>

	2008		
	Cost	Accumulated Amortization and Depletion	Net Book Value
	\$	\$	\$
Mining properties	630,961	(6,197)	624,764
Mining plant and equipment	105,807	(17,821)	87,986
Office and computer equipment	391	(63)	328
Construction in progress	8,860	-	8,860
	<u>746,019</u>	<u>(24,081)</u>	<u>721,938</u>

Construction in progress relates to upgrades to the Choco Mine mill and tailing dams being built at the Choco Mine. Upon completion, such costs net of residual value will be amortized over their estimated useful life.

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Included in property, plant and equipment is the net book value associated with the Company's operating mines, mineral properties and corporate head office as follows:

	Mining Properties			Property, Plant and Equipment (excluding mining properties)	2009	2008
	Depletable	Non-Depletable(*)	Total			
	\$	\$	\$	\$	\$	\$
Choco Mine	55,148	507,291	562,439	68,150	630,589	672,935
Isidora Mine	1,662	29,615	31,277	8,714	39,991	42,900
Other Venezuelan properties	-	-	-	4,357	4,357	5,775
Corporate head office	-	-	-	248	248	328
	<u>56,810</u>	<u>536,906</u>	<u>593,716</u>	<u>81,469</u>	<u>675,185</u>	<u>721,938</u>

(*) Carrying value of mining properties attributed to mineral resources other than proven and probable reserves.

8. MINERAL PROPERTIES

	San Rafael	Increible 6	El Callao	Valle Hondo	Minoro	Other Properties	Total
	El Placer			\$		\$	
	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2007	16,970	55,464	152,994	20,658	13,500	10,405	269,991
Acquisition of properties in Hecla-Venezuela	-	-	-	-	-	2,385	2,385
Acquisition	-	-	-	-	-	(329)	(329)
Transfer of mineral properties	-	623	-	-	-	-	623
Asset retirement obligations	8,967	5,854	-	2,508	38	5,258	22,625
Exploration and development costs	-	-	(3,700)	-	(13,538)	(2,019)	(19,257)
Impairment of mineral properties	-	-	(71)	-	-	(83)	(154)
Unrealized foreign exchange loss	<u>25,937</u>	<u>61,941</u>	<u>149,223</u>	<u>23,166</u>	<u>-</u>	<u>15,617</u>	<u>275,884</u>
Balance, December 31, 2008	9,251	954	-	495	-	22	10,722
Exploration and development costs	-	-	(5,087)	-	-	(5,867)	(10,954)
Impairment of mineral properties	-	-	(6,754)	-	-	(104)	(6,858)
Unrealized foreign exchange gain	<u>35,188</u>	<u>62,895</u>	<u>137,382</u>	<u>23,661</u>	<u>-</u>	<u>9,668</u>	<u>268,794</u>
Balance, December 31, 2009							

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The Company holds mineral rights for a group of projects in Bolivar State, southern Venezuela and for a single project in Honduras.

The Company recorded an impairment of mineral properties totalling \$10,954 (2008: \$19,257) in the consolidated statement of operations. The impairment recorded in the year ended December 31, 2009 related to certain El Callao properties and Other Properties that the Company does not plan to pursue exploration and development work on in the future. The impairment recorded in the year ended December 31, 2008 related to certain Other Properties which the Company chose to return to the Venezuelan government, certain El Callao properties under application that the Company has decided not to pursue approval of the applications and to the Minoro property in Honduras as the Company does not currently have plans to pursue exploration or development work on this property in the future. The mineral properties returned to the Venezuelan government and the Minoro property were impaired to a value of \$Nil as the Company received no consideration for the properties returned to the Venezuelan government and does not expect to sell the Minoro property in the future.

During the year ended December 31, 2008 as part of the Hecla-Venezuela Acquisition (Note 4(a)) the Company committed to transfer certain mineral properties with a carrying value of \$329 to EMN. The fair value of these mineral properties was determined as \$1,975 and a gain of \$1,646 was recorded in the consolidated statement of operations.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
	\$	\$
Accounts payable	7,557	13,722
Accrued liabilities	19,571	16,866
Accrual for termination benefits	2,135	1,828
Accrual for interest on convertible loan (Note 11)	350	462
Current portion of asset retirement obligations (Note 10)	250	175
Due to related parties (Note 14)	96	1,398
	<u>29,959</u>	<u>34,451</u>

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10. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations relate to reclamation costs associated with the Choco Mine and Isidora Mine and the Company's mineral properties. This calculation has been performed with expected cash requirements over a 15-year period and has been discounted using a credit-adjusted risk-free rate of 16.5% (2008: 18.5%).

A continuity of the asset retirement obligations is as follows:

	2009	2008
	\$	\$
Balance, beginning of the year	2,806	2,284
Change in estimate of future costs	(204)	(1,319)
Assumed on Hecla-Venezuela Acquisition (Note 4(a))	-	721
Accretion expense	826	537
Settled in year	(64)	(173)
Incurred in year	68	907
Foreign exchange gain	(57)	(151)
Balance, end of the year	<u>3,375</u>	<u>2,806</u>
Less: current portion of asset retirement obligations, included in accounts payable and accrued liabilities (Note 9)	(250)	(175)
Long-term asset retirement obligation	<u>3,125</u>	<u>2,631</u>

The undiscounted estimated future cash flows needed to settle the asset retirement obligations incurred to December 31, 2009 are approximately \$7,552 (December 31, 2008: \$6,813) which are expected to be expended between 2010 and 2024.

In view of the uncertainties concerning environmental reclamation, the ultimate cost of reclamation activities could differ materially from the estimated amount recorded. The estimate of the Company's asset retirement obligations is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Future changes, if any, to the estimated liability as a result of amended requirements, laws, regulations, operating assumptions, estimated timing and amount of obligations may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding increase or decrease to the mineral property and/or property, plant and equipment balance(s).

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11. CONVERTIBLE LOAN

On June 10, 2008 the Company entered into the Loan to fund the Hecla-Venezuela Acquisition (Note 4(a)) and for general corporate purposes. The Loan has a two-year term, bears interest at a contractual rate of 10% per annum, is payable semi-annually and is secured by share pledges over the Company's principal assets including the Choco Mine (Note 7) and San Rafael El Placer and Increible 6 mineral properties (Note 8) but excluding the Isidora Mine (Note 7). The lenders have the option, at any time and at their sole discretion, to convert all or part of the outstanding principal of the Loan to common shares of the Company at a conversion price as at December 31, 2009, of \$1.07 per common share (subject to adjustment depending on future equity financings and other transactions entered into by the Company). In addition, the Company has granted to the lenders pro-rata participation in any future equity offerings for the term of the Loan. The Loan may be repaid by the Company at any time subject to the Company providing the lenders with 30 days notice and repaying the outstanding principal in full plus an amount equal to the interest that would have been accrued if the Loan was held for the original two-year term.

For accounting purposes, the Loan contains both a liability component and an equity component, being the lender's conversion option to shares, which have been separately presented on the consolidated balance sheet. The Company allocated the original \$80,000 principal of the Loan to the individual liability and equity components by establishing the fair value of the liability component at the date of issue and then allocating the remaining balance of the net proceeds to the equity component. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal amounts at the estimated prevailing market rate at the date of issuance of 15% for a debt instrument of similar maturity and credit quality but without any share conversion option for the lenders. Including the impact of the costs of issuance, applying the effective interest rate method, the liability component of the Loan bears an effective annual interest rate of 18.5%.

On November 12, 2009, the Company purchased \$20,000 of the principal amount of the Loan and related accrued interest of \$847 for \$17,754 including professional fees. The Company recorded a gain on repurchase of convertible loan in the consolidated statement of operations of \$2,206. This gain was calculated as the difference between the amortized cost and the fair value of the liability component of the portion of the Loan which was repurchased. The \$1,577 equity component relating to the 25% principal portion of the Loan which was repurchased was transferred to retained earnings. The \$60,000 remaining principal portion of the Loan is due in June of 2010.

	\$
Gross proceeds received on issuance	80,000
Cost of issuance including financial advisory fees	(4,645)
Net proceeds on issuance	<u>75,355</u>
	\$
Equity component at the date of issuance and December 31, 2008	6,310
Repurchase of convertible loan	(1,577)
Equity component at December 31, 2009	<u>4,733</u>

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The convertible loan is made up as follows:

	December 31, 2009 \$	December 31, 2008 \$
Liability component at the date of issuance	69,045	69,045
Accretion of interest	8,003	2,688
Liability component repurchased	(19,113)	-
Convertible loan	57,935	71,733

12. SHARE CAPITAL

Authorized Share Capital of the Company

Unlimited number of common shares without par value.

(a) Issued Capital

	Number of <u>Shares</u>	Amount \$
Balance, December 31, 2007	386,835	669,252
Issued pursuant to exercise of warrants	347	354
Fair value of warrants exercised	-	770
Hecla-Venezuela Acquisition (i)	4,274	4,960
Working Capital Adjustment (ii)	(678)	(780)
Balance, December 31, 2008	390,778	674,556
Shares issued to financial advisor (iii)	5,734	1,250
Shares issued in public offering (iv)	133,334	64,636
Share issue costs (iv)	-	(4,355)
Balance, December 31, 2009	529,846	736,087

- i. On July 8, 2008, the Company issued 4,274 common shares with a fair value of \$1.16 per share as part of the Hecla-Venezuela Acquisition (Note 4(a)).
- ii. Hecla had the option to repay in cash or shares of the Company at a value agreed by the parties in the stock purchase agreement for the Hecla-Venezuela Acquisition, the difference between the estimated and actual working capital purchased by the Company in the Hecla-Venezuela Acquisition (Note 4(a)) ("the Working Capital Adjustment"). Hecla chose to repay the Working Capital Adjustment of \$780 in shares of the Company at the contractually agreed value.
- iii. On February 11, 2009, the Company issued 5,734 common shares with a fair value of \$1,250 to its financial advisor for advisory services related to the Company's unsolicited take-over bid (Notes 4(b) and 16) which was included in accounts payable and accrued liabilities at December 31, 2008.
- iv. On March 19, 2009, the Company issued 133,334 common shares at Canadian Dollars ("C\$") 0.60 per common share for gross proceeds of \$64,636 (C\$80,000). A cash commission of \$3,878 equal to 6.0% of the gross proceeds was paid to the underwriter and other fees related to the public offering were \$477.

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(b) Stock Options

The Company has a stock option plan available to its directors, officers, consultants and key employees under which the Company may grant options to acquire a maximum number of common shares equal to up to 10% of the total issued and outstanding common shares of the Company. Options are non-transferable and may have a term of up to 10 years from the date of issue. The amount of options, vesting terms, conditions, and exercise price are determined by the board of directors at the time of grant.

The following stock options were outstanding at December 31, 2009:

Options Outstanding				Options Exercisable	
<u>Exercise Prices</u>	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Options Outstanding and Exercisable</u>	<u>Weighted Average Exercise Price</u>
C\$0.60	19,770	C\$0.60	8.84	18,342	C\$0.60
C\$1.11 – C\$1.70	17,496	C\$1.32	8.33	17,230	C\$1.32
C\$2.12 – C\$2.30	8,125	C\$2.19	7.75	7,300	C\$2.19
\$3.00	5,755	\$3.00	6.85	5,755	\$3.00
	<u>51,146</u>	<u>\$1.32</u>	<u>8.27</u>	<u>48,627</u>	<u>\$1.33</u>

Stock option transactions are summarized as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u> <u>\$</u>
Outstanding, December 31, 2007	18,541	2.62
Issued	16,835	1.30
Expired	(38)	0.83
Outstanding, December 31, 2008	<u>35,338</u>	1.61
Issued	16,230	0.50
Expired	(352)	0.99
Forfeited	(70)	0.57
Outstanding, December 31, 2009	<u><u>51,146</u></u>	1.32

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The total fair value of the options granted for the years presented was estimated using the Black-Scholes option-pricing model and resulted in the following amounts:

	<u>2009</u>	<u>2008</u>
Assumptions		
Expected dividend yield	0%	0%
Expected stock price volatility	62%-109%	59% - 77%
Risk-free interest rate	1.16% - 3.01%	3.81% - 4.09%
Expected forfeiture rate	0% - 24%	-
Expected option life (years)	2 – 10	10
Weighted average grant date fair value per option	\$0.35	\$1.05

During the year ended December 31, 2009, the Company amended the exercise price of 3,610 stock options with original exercise prices ranging from C\$1.31 - \$3.00 to C\$0.60 and amended the expiry date of 350 stock options from October 28, 2009 to October 29, 2011. During the year ended December 31, 2008, the Company amended the exercise price of 2,530 stock options with original exercise prices ranging from C\$1.60-\$3.00 to C\$1.31.

(c) Warrants

Share purchase warrant transactions for the year ended December 31, 2009, and December 31, 2008, were as follows:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u> \$
Outstanding, December 31, 2007	109,147	4.00
Exercised	(347)	1.02
Outstanding, December 31, 2008	108,800	3.37
Outstanding, December 31, 2009	108,800	3.88

The following warrants were outstanding as at December 31, 2009:

<u>Number of Warrants Outstanding and Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
5,833	\$3.35	November 7, 2011
9,217	C\$5.25	March 4, 2012
93,750	C\$4.00	November 30, 2012
<u>108,800</u>		

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(d) Contributed Surplus

	Amount \$
Balance, December 31, 2007	91,823
Reclassification to common shares on exercise of warrants	(770)
Stock-based compensation	23,754
Balance, December 31, 2008	<u>114,807</u>
Stock-based compensation	6,867
Balance, December 31, 2009	<u>121,674</u>

13. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of accumulated other comprehensive (loss) income are as follows:

	December 31, 2009 \$	December 31, 2008 \$
Unrealized foreign exchange (losses) gains on translation of self-sustaining foreign operations	<u>(5,558)</u>	<u>23,966</u>

14. RELATED PARTY TRANSACTIONS

- a) Included in receivables (Note 5) are amounts owed from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively of \$204 (December 31, 2008: \$51). These amounts are unsecured and non-interest bearing with no set terms of repayment.
- b) Included in prepaid expenses and deposits is \$Nil (December 31, 2008: \$41) related to a security deposit for an office lease entered into with a company of which a director/officer of the Company has significant influence.
- c) Included in amounts capitalized as property, plant and equipment is \$1,094 (December 31, 2008: \$907) and included in amounts capitalized as mineral properties is \$380 (December 31, 2008: \$1,764) related to the provision of technical and geological services and machinery rental from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively.
- d) Included in the consideration of the Hecla-Venezuela Acquisition (Note 4(a)) is \$Nil (December 31, 2008: \$2,000) for an advance for the purchase of a plant for the treatment of diamonds which is owned by a company controlled by a director/officer of the Company. On February 20, 2009, the Company issued a promissory note to a director/officer of the Company for \$500 related to an advance for the purchase of a plant for the treatment of diamonds. The promissory note was unsecured, non-interest bearing and repayable at a time agreeable to the Company and the director/officer. On May 19, 2009, the Company repaid the promissory note.
- e) Included in accounts payable and accrued liabilities (Note 9) are amounts due to companies which a director/officer of the Company and a director of the Company are an officer and a director, respectively, and to a law firm of which a director of the Company is a partner of \$96 (December 31, 2008: \$1,398). These amounts are unsecured, due on demand and non-interest bearing.

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- f) Included in general and administrative expenses is \$34 (2008: \$891) related to the cost of running the Company's office of representation in Moscow and \$Nil (2008: \$446) related to consulting fees from a company of which a director/officer of the Company has significant influence and \$102 (2008: \$98) related to the rental of the Caracas office from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively. Included in general and administration expense is \$Nil (2008: \$365) related to the provision of travel services from a company of which a director of the Company has significant influence.
- g) Included in convertible loan (Note 11) is financing costs of \$Nil (December 31, 2008: \$97), included in acquisition costs of the Hecla-Venezuela Acquisition (Note 4(a)) is \$Nil (December 31, 2008: \$143), included in share capital is share issuance costs of \$23 (December 31, 2008: \$Nil) related to the provision of legal services for the shares issued in public offering (Note 12(a)(iv)), included in general and administrative expenses is \$164 (2008: \$348) related to the provision of legal services and included in litigation and unsuccessful acquisition costs is \$190 (2008: \$302) related to the provision of legal services for the Gold Reserve Bid (Note 4(b)) which were paid to a law firm of which a director of the Company is a partner.

Related party transactions are recorded at the exchange amount which is the consideration agreed to between the parties.

15. CAPITAL MANAGEMENT DISCLOSURES

The Company defines the capital that it manages as its shareholders' equity and convertible loan. The Company's objectives when managing capital are to:

- a) Provide an adequate return to shareholders;
- b) Provide adequate and efficient funding for operations;
- c) Support any expansion plans;
- d) Continue the exploration and development of its mineral properties;
- e) Maintain a capital structure, which optimises the cost of capital at acceptable risk.

The Company satisfies its capital requirements through management of its cash and short-term investments and by using debt or equity issues, as necessary, based on the economic conditions and risk characteristics associated with the Company's underlying assets.

The Company is not subject to any externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2009.

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16. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
	\$	\$
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Receivables	5,647	(5,087)
Inventories	(26,545)	(4,086)
Prepaid expenses and deposits	976	(2,466)
Accounts payable and accrued liabilities	2,523	8,392
Income taxes payable	(1,477)	1,611
	<u>(18,876)</u>	<u>(1,636)</u>
	2009	2008
	\$	\$
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable and accrued liabilities – Expenditures on mineral properties	(2,050)	1,127
Accounts payable and accrued liabilities – Expenditures on property, plant and equipment	(248)	594
Accounts payable and accrued liabilities – Hecla -Venezuela Acquisition (Note 4(a))	(500)	500
Amortization capitalized – Mineral properties	1,566	1,256
Stock-based compensation capitalized – Mineral Properties	24	916
Shares received on sale of subsidiary	-	530
Shares issued to financial advisor (Note 12(a)(iii))	1,250	-
Working capital adjustment for the Hecla-Venezuela Acquisition (Note 12 (a)(ii))	-	780
Shares issued for the Hecla-Venezuela Acquisition (Note 12(a)(i))	-	4,960
Transfer of mineral properties on the Hecla-Venezuela Acquisition (Notes 4(a) and 8)	-	1,975
	2009	2008
	\$	\$
OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS		
Interest paid	7,000	4,000
Taxes paid	1,652	-

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17. INCOME TAXES

(a) Provision for Income Taxes

The reconciliation of the expected tax expense at the statutory rate of 30.0% (2008: 31.0%) and the provision for income tax expense is as follows:

	2009	2008
	\$	\$
Loss before taxes	(16,239)	(83,825)
Statutory tax rate	30.0%	31.0%
Expected income tax recovery	(4,872)	(25,986)
Rate difference in foreign jurisdictions	2,865	2,494
Foreign exchange and other permanent differences	(1,851)	6,917
Impact of reduction in enacted rates	664	1,073
Prior year over (under) accruals	40	(12)
Change in valuation allowance	2,238	3,936
Income tax recovery	(916)	(11,578)

(b) Future Income Tax Liability

The tax effects of temporary differences that give rise to future income tax assets and liabilities are:

	2009	2008
	\$	\$
Future income tax assets (liabilities):		
Non capital loss carried forward	14,285	9,364
Property, plant and equipment	7,087	6,638
Mineral properties	9,024	6,344
Share issuance costs	4,071	2,802
Other	(6,553)	2,038
Valuation allowance	(20,120)	(15,216)
	<u>7,794</u>	<u>11,970</u>
Property, plant and equipment	(211,232)	(246,604)
Mineral properties	(59,270)	(44,493)
Other	(1,697)	(1,700)
	<u>(272,199)</u>	<u>(292,797)</u>
	<u>(264,405)</u>	<u>(280,827)</u>

The future income tax liability of \$264,405 (December 31, 2008: \$280,827) substantially relates to the excess of the fair value of the assets acquired in previous acquisitions over their tax costs which have been substantially allocated to property, plant and equipment and mineral properties. As the future amortization of these assets for accounting purposes will exceed the equivalent tax deduction, the Company recorded the future income tax liability relating to these temporary differences at the time of the acquisitions. As the related assets are amortized this future income tax liability will decrease with an offsetting future recovery of future income taxes in the consolidated statement of operations.

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As at December 31, 2009, the Company had available for deduction against future taxable income in Canada non-capital losses of approximately C\$50,355 (December 31, 2008: C\$33,800). These losses, if utilized, have expiration years ranging from 2010 to 2029. The potential income tax benefit of these losses have been offset by a valuation allowance.

The Company also has available for deduction against future taxable income in Venezuela losses carried forward of approximately BsF 56,302, (December 31, 2008: BsF 37,300), which expire over the next 3 years. The potential income tax benefit of these losses has been partially offset by a valuation allowance.

18. SEGMENTED DISCLOSURE

The Company's reportable operating segments are the Choco Mine, Isidora Mine, Exploration and Development and Corporate. All operating segment assets are held in Venezuela except for Corporate operating segment assets which are held in Canada.

	Choco Mine 2009 \$	Isidora Mine 2009 \$	Exploration and Development 2009 \$	Corporate 2009 \$	Total 2009 \$
Revenues	59,403	12,970	-	-	72,373
Mining operating expenses	(28,246)	(11,144)	-	-	(39,390)
Mining amortization	(8,478)	(1,747)	-	-	(10,225)
General and administrative	-	-	(1,731)	(7,624)	(9,355)
Stock-based compensation	-	-	-	(6,843)	(6,843)
Interest on convertible loan	-	-	-	(13,047)	(13,047)
Foreign exchange gain (loss)	103	-	(128)	1,093	1,068
Impairment of mineral properties	-	-	(10,954)	-	(10,954)
Gain on repurchase of convertible loan	-	-	-	2,206	2,206
Litigation and unsuccessful acquisition	-	-	-	(796)	(796)
Other (expenses) income	(1,129)	65	(312)	100	(1,276)
Income tax (expense) recovery	(1,437)	1,822	531	-	916
Non-controlling interest	(961)	-	-	-	(961)
Net income (loss)	<u>19,255</u>	<u>1,966</u>	<u>(12,594)</u>	<u>(24,911)</u>	<u>(16,284)</u>
Capital expenditures	<u>3,557</u>	<u>3,030</u>	<u>11,582</u>	<u>7</u>	<u>18,176</u>

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	Choco Mine 2008 \$	Isidora Mine 2008 \$	Exploration and Development 2008 \$	Corporate 2008 \$	Total 2008 \$
Revenues	69,949	338	-	-	70,287
Mining operating expenses	(63,779)	(117)	-	-	(63,896)
Mining amortization	(17,481)	(63)	-	-	(17,544)
General and administrative	-	-	(6,785)	(12,956)	(19,741)
Stock-based compensation	-	-	-	(22,838)	(22,838)
Interest on convertible loan	-	-	-	(7,149)	(7,149)
Foreign exchange gain (loss)	(1,111)	-	(316)	(209)	(1,636)
Impairment of mineral properties	-	-	(19,257)	-	(19,257)
Gain on repurchase of convertible loan	-	-	-	-	-
Gain on transfer of mineral properties	-	-	1,646	-	1,646
Litigation and unsuccessful acquisition	-	-	-	(3,348)	(3,348)
Other (expenses) income	(605)	-	(410)	666	(349)
Income tax recovery	8,725	-	2,853	-	11,578
Net loss	<u>(4,302)</u>	<u>158</u>	<u>(22,269)</u>	<u>(45,834)</u>	<u>(72,247)</u>
Capital expenditures	<u>21,895</u>	<u>-</u>	<u>19,922</u>	<u>106</u>	<u>41,923</u>

In the year ended December 31, 2009 and 2008, all revenue was generated in Venezuela.

The customers with significant sales are included in the Choco Mine and Isidora Mine operating segments and are as follows:

	2009 \$	2008 \$
Customer A	17,107	-
Customer B	16,755	-
Customer C	15,610	-
Customer D	11,992	7,921
Customer E	-	20,821
Customer F	-	12,882
Customer G	-	11,638

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The Company's geographic segment information is as follows:

	Choco Mine 2009 \$	Isidora Mine 2009 \$	Exploration and Development 2009 \$	Corporate 2009 \$	Total 2009 \$
Assets					
Current assets	47,901	11,616	3,867	13,653	77,037
Property, plant, and equipment	630,589	39,991	4,357	248	675,185
Mineral properties	-	-	268,794	-	268,794
Receivables non- current	11,110	-	1,931	-	13,041
	689,600	51,607	278,949	13,901	1,034,057

	Choco Mine 2008 \$	Isidora Mine 2008 \$	Exploration and Development 2008 \$	Corporate 2008 \$	Total 2008 \$
Assets					
Current assets	28,330	8,500	2,447	489	39,766
Receivables non- current	4,973	-	1,643	-	6,616
Property, plant, and equipment	672,935	42,900	5,775	328	721,938
Mineral properties	-	-	275,884	-	275,884
	706,238	51,400	285,749	817	1,044,204

19. JOINT VENTURE INTEREST

The Company conducts a portion of its business through a joint venture (Note 4(a)) under which the joint venture participants are bound by the articles of incorporation of Venrus C.A. The Company records its 50% proportionate share of assets, liabilities, revenues, and operating costs of the joint venture.

The following details the Company's share of its investment in the joint venture that has been proportionately consolidated:

	December 31, 2009 \$	December 31, 2008 \$
Assets		
Current assets	11,616	8,500
Property, plant and equipment	39,991	42,900
Mineral properties	184	2,301
	51,791	53,701
Liabilities		
Current liabilities	5,932	2,945
Other long-term liabilities	1,178	71
Future income tax liability	12,554	15,364
	19,664	18,380

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	2009	2008
	\$	\$
Revenue	12,970	338
Expenses	(11,004)	(180)
Net income	<u>1,966</u>	<u>158</u>
Cash Flows		
Operating activities	3,055	-
Investing activities	(3,030)	-
Financing activities	-	-
Increase in cash	<u>25</u>	<u>-</u>

20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

At December 31, 2009, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for explosives, community relations, security, consulting and other services as follows:

	Total
	\$
2010	4,815
2011	2,179
2012	2,090
2013	2,090
2014 and Thereafter	11,167
	<u>22,341</u>

(b) Contingencies

(i) Central Bank of Venezuela Resolution

On June 16, 2009, the Central Bank of Venezuela ("the CBV") passed Resolution No. 09-06-03 which became effective June 22, 2009, that replaced Resolution No. 09-04-03 that the CBV had passed on April 30, 2009. Resolution No. 09-06-03 mandates that for companies in which the Venezuela State has no interest or less than 50% interest, 70% of gold produced in the country in each calendar quarter must be allocated to the domestic market, of which at least 60% must be offered for sale to the CBV and up to 10% can be offered for sale to the domestic processing industry. The remaining 30% of the gold produced in Venezuela can be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV. In companies in which the Venezuelan State has an interest of 50% or greater, at least 50% of the gold produced in the country in each calendar quarter must be allocated to the domestic market of which at least 25% can be offered for sale to the CBV and up to 25% can be offered for sale to the domestic processing industry. The remaining 50% can be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV.

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Exports of gold are subject to foreign currency exchange control regulations in Venezuela which require that the proceeds from gold exports collected in a currency other than BsF must be exchanged for BsF with the CBV at the official rate of BsF 2.15/\$1.00 (BsF 4.30/\$1.00 subsequent to January 11, 2010 (Note 24)). The CBV and the Ministry of Finance passed Exchange Agreement No. 12 during 2009 which provides more flexibility for companies in which the Venezuelan State has an interest of 50% or greater as they may keep bank accounts abroad in foreign currency and use the currency received from gold exports to make direct payments in foreign currency. Companies in which the Venezuelan State has no interest or less than 50% interest, are not covered by Exchange Agreement No. 12. The Company has obtained legal advice that Resolution No. 09-06-03 applies to finished gold produced after June 30, 2009.

Depending on the outcome of the application of the above resolution, the carrying value of the Company's assets including property, plant and equipment and mineral properties may be materially negatively impacted.

(ii) Gold Reserve Lawsuit

Gold Reserve has claimed \$550,000 in damages and punitive damages related to an alleged breach of confidence and trespass related to Gold Reserve's property in Venezuela. On February 10, 2009 the Ontario Superior Court of Justice granted Gold Reserve's injunction application by which the Company and Endeavour Financial International Corporation were restrained from making any unsolicited takeover bid for Gold Reserve. The Company denies the allegations made against it and has served a statement of defense and counterclaim claiming \$102,500 in respect of losses the Company has sustained as a result of the injunction's issuance. The outcome of this matter is not determinable at this time and no amount has been accrued in these financial statements for this claim.

(iii) Other Matters

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material impact on its consolidated financial position, results of operations or cash flows.

21. FINANCIAL INSTRUMENTS

(a) Financial Assets and Liabilities

The Company's financial instruments consist of cash, short-term investments, receivables, accounts payable and accrued liabilities, convertible loan and accrual for termination benefits.

The carrying amounts of cash, short-term investments, receivables, accounts payable and accrued liabilities and accrual for termination benefits are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. Management reviewed all significant financial instruments held by the Company and determined that no significant differences between fair value and carrying value existed as at December 31, 2009, except for the liability component of the convertible loan which has a fair value of \$58,403 (December 31, 2008: \$66,354).

CICA Handbook Section 3862, *Financial Instruments – Disclosures* establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values. The Company's financial instruments at December 31, 2009 classified as "Level One – Quoted prices in active markets" is cash. Short-term investments are classified as "Level Two – Inputs other than quoted prices that are observable for the assets and liabilities either directly or indirectly".

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(b) Financial Instrument Risk Exposure

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Management does not believe the Company is exposed to any significant concentration of credit risk. Management determines concentration by the percentage of cash, short-term investments and receivables owed by a single party.

The Company's exposure to credit risk on its C\$ and US Dollar cash and short-term investments is limited by maintaining these assets with high-credit quality financial institutions and investing in highly rated corporations and government issuances in accordance with its investment policy as approved by the board of directors. The Company is exposed to the credit risk of Venezuelan banks, which hold cash for the Company's Venezuelan operations. The Company limits its exposure to this risk by maintaining BsF cash balances to fund only the short-term needs of its Venezuelan subsidiaries. The Company minimizes the credit risk on trade receivables (Note 5) by selling to customers with strong credit histories.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its obligations associated with financial liabilities as they fall due. The Company manages liquidity risk by monitoring cash, short-term investments and other financial resources available to meet its maturing obligations.

The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations and accessing capital markets (Note 1). The table below provides a summary of the contractual obligations and payments related to financial liabilities included in the consolidated balance sheet as at December 31, 2009. The amounts disclosed are the contractual undiscounted cash flows.

	2010	2011-2012	Total
	\$	\$	\$
Accounts payable and accrued liabilities	25,071	4,538	29,609
Accrual for termination benefits non-current	-	915	915
Interest on convertible loan	3,000	-	3,000
Convertible loan	60,000	-	60,000
	<u>88,071</u>	<u>5,453</u>	<u>93,524</u>

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Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at December 31, 2009, a 1% increase in interest rates would decrease the fair value of convertible loan by \$238 and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$240.

(ii) Currency Risk

Currency risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk as the Company's financial assets and liabilities include items denominated in BsF and \$C. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses recognized in the Company's consolidated statement of operations and/or accumulated other comprehensive (loss) income in the Company's consolidated balance sheet. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company's Venezuelan operations and cash holdings are currently subject to currency and exchange controls. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US Dollars out of the country. As at December 31, 2009, the Company holds cash of \$667 (December 31, 2008: \$1,721) in BsF.

The sensitivity of the Company's net earnings and other comprehensive loss from financial assets and liabilities due to changes in the exchange rate between the BsF, C\$, and the US Dollar are summarized below:

	As at December 31, 2009	
	25% Increase in the BsF	25% Decrease in the BsF
	\$	\$
Net earnings	(574)	459
Other comprehensive loss	(4,203)	3,362

	As at December 31, 2009	
	10% Increase in the C\$	10% Decrease in the C\$
	\$	\$
Net earnings	371	(337)
Other comprehensive loss	-	-

22. ASSETS HELD FOR SALE

As at December 31, 2008, the Company recorded certain machinery with a net book value of \$2,771 as assets held for sale. As at December 31, 2009 the Company has reclassified this amount to property, plant and equipment as management no longer believes the Company will receive government approval to sell these assets. These assets are included in the Choco Mine operating segment in Note 18.

23. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

24. SUBSEQUENT EVENTS

- (a) As at January 1, 2010 the Company determined that the Venezuelan economy became hyperinflationary. Prior to January 1, 2010 the subsidiaries acquired as a result of the acquisition of a 95% ownership interest in the Choco Mine and 95-100% ownership interest in related exploration properties and the 50% joint venture interest in the Isidora Mine were translated using the current rate method as described in Note 2(c). As the Venezuelan economy became hyperinflationary as at January 1, 2010 the subsidiaries discussed above will be translated using the temporal method beginning January 1, 2010.

Under the temporal method, monetary assets and liabilities are translated into US dollars at the exchange rate in effect at the end of the period while non-monetary assets and liabilities are translated using the exchange rate in effect on the date of the transaction. Income and expenses are translated at the exchange rate in effect during the period except for the cost of inventory included in mining operating expenses, amortization of property, plant and equipment and impairment of mineral properties, which are translated using the same rates as the related assets. Foreign exchange gains and losses arising upon translation are included in the consolidated statement of operations.

- (b) On January 11, 2010, the CBV and Ministry of Finance passed Exchange Agreement No. 14, which modified the currency by fixing the official exchange rate at BsF 4.30/\$1.00 for most goods and services and BsF 2.60/\$1.00 for certain priority items, such as basic foods, medicines and industrial equipment.
- (c) In February 2010, the Company and the Choco Mine workers renewed their collective bargaining agreement which included a onetime payment of \$5.2 million to the Choco Mine workers. This payment was made on March 8, 2010.