



**RUSORO MINING LTD.**  
**Consolidated Financial Statements**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**(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 accompanying consolidated financial statements of Rusoro Mining Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operation, comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



To the shareholders of Rusoro Mining Ltd.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rusoro Mining Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a significant debt repayment due in June 2011. In order to make this payment, the Company is in active negotiations to secure financing. This condition indicates the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern.

Vancouver, Canada  
April 11, 2011

*Grant Thornton LLP*

Chartered accountants

**RUSORO MINING LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**AT DECEMBER 31**

(Expressed in thousands, except per share amounts) (US Dollars)

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Cash	4,054	10,420
Short-term investments	-	3,806
Receivables (Notes 4 and 14)	12,755	3,357
Inventories (Note 5)	38,976	52,985
Prepaid expenses and deposits	12,773	8,088
Current assets	<u>68,558</u>	<u>78,656</u>
Receivables (Note 4)	14,591	13,041
Property, plant and equipment (Notes 6 and 14)	668,996	675,185
Mineral properties (Notes 7 and 14)	285,831	267,175
	<u>1,037,976</u>	<u>1,034,057</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Notes 8 and 14)	59,070	29,959
Deferred revenue (Note 9)	6,643	-
Income taxes payable	3,691	2,812
Current portion of convertible loan (Notes 10 and 14)	28,631	57,935
Current liabilities	<u>98,035</u>	<u>90,706</u>
Accrual for termination benefits	3,492	915
Asset retirement obligations (Note 11)	5,450	3,125
Future income tax liability (Note 17)	338,973	264,405
	<u>445,950</u>	<u>359,151</u>
<b>EQUITY</b>		
Share capital (Notes 12(a) and 14)	736,238	736,087
Equity component of convertible loan (Note 10)	1,223	4,733
Share purchase warrants (Note 12(c)(i))	65,610	64,737
Share purchase warrants committed (Note 12(c)(ii))	330	-
Contributed surplus (Note 12(d))	62,970	56,937
Accumulated other comprehensive loss (Note 13)	(5,558)	(5,558)
Deficit	(270,808)	(182,238)
Shareholders' equity	<u>590,005</u>	<u>674,698</u>
Non-controlling interest	2,021	208
	<u>592,026</u>	<u>674,906</u>
	<u>1,037,976</u>	<u>1,034,057</u>

Nature of operations and going concern assumption – Note 1

Commitments and contingencies – Note 20

Subsequent event – Note 23

APPROVED BY THE BOARD:

“Andre Agapov”,

Director

“Gordon Keep”,

Director

\_\_\_\_\_  
 Andre Agapov

\_\_\_\_\_  
 Gordon Keep

See accompanying notes to the consolidated financial statements.

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

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>	143,672	72,373
<b>COSTS AND EXPENSES</b>		
Mining operating expenses (Note 5)	111,515	39,390
Mining amortization	21,420	10,225
	132,935	49,615
<b>EARNINGS FROM MINING OPERATIONS</b>	10,737	22,758
General and administrative (Note 14)	9,187	9,355
Stock-based compensation (Note 12(b))	1,417	6,843
	10,604	16,198
<b>EARNINGS FROM OPERATIONS</b>	133	6,560
Interest on convertible loan	8,005	13,047
Foreign exchange loss (gain)	100,848	(1,068)
Impairment of mineral properties (Note 7)	-	10,954
Other expense (income)	929	(134)
	109,782	22,799
<b>LOSS BEFORE INCOME TAXES</b>	(109,649)	(16,239)
Current income taxes expense	534	2,579
Recovery of future income taxes	(23,426)	(3,495)
	(22,892)	(916)
<b>NET LOSS</b>	(86,757)	(15,323)
<b>ATTRIBUTABLE TO:</b>		
Non-controlling interest	1,813	961
Equity shareholders of the Company	(88,570)	(16,284)
<b>NET LOSS</b>	(86,757)	(15,323)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>		
Basic and diluted	529,851	501,074
<b>LOSS PER SHARE</b>		
Basic and diluted loss per share	(0.17)	(0.03)

See accompanying notes to the consolidated financial statements.

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

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	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>NET LOSS</b>	(86,757)	(15,323)
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	-	(30,277)
<b>COMPREHENSIVE LOSS</b>	<u>(86,757)</u>	<u>(45,600)</u>
<b>ATTRIBUTABLE TO:</b>		
Non-controlling interest	1,813	208
Equity shareholders of the Company	<u>(88,570)</u>	<u>(45,808)</u>
<b>COMPREHENSIVE LOSS</b>	<u>(86,757)</u>	<u>(45,600)</u>

See accompanying notes to the consolidated financial statements.

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**RUSORO MINING LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands, except per share amounts) (US Dollars)

	Share capital		Equity component of convertible loan	Share purchase warrants	Share purchase warrants committed	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Non-controlling interest	Equity
	Common Shares	Amount								
		\$								
<b>Balance, December 31, 2008</b>	390,778	674,556	6,310	64,737	-	50,070	23,966	(167,531)	-	652,108
Shares issued to financial advisor (Note 12(a)(i))	5,734	1,250	-	-	-	-	-	-	-	1,250
Shares issued in public offering (Note 12(a)(ii))	133,334	60,281	-	-	-	-	-	-	-	60,281
Repurchase of convertible loan	-	-	(1,577)	-	-	-	-	1,577	-	-
Stock-based compensation (Note 12(b))	-	-	-	-	-	6,867	-	-	-	6,867
Comprehensive (loss) income	-	-	-	-	-	-	(29,524)	(16,284)	208	(45,600)
<b>Balance, December 31, 2009</b>	529,846	736,087	4,733	64,737	-	56,937	(5,558)	(182,238)	208	674,906
Share purchase warrants issued (Note 12(c)(i))	-	-	-	873	-	-	-	-	-	873
Share purchase warrants committed (Note 12(c)(ii))	-	-	-	-	330	-	-	-	-	330
Convertible loan repayment (Note 10)	-	-	(4,733)	-	-	4,733	-	-	-	-
Convertible loan modification (Note 10)	-	-	1,223	-	-	-	-	-	-	1,223
Stock-based compensation (Note 12(b))	-	-	-	-	-	1,417	-	-	-	1,417
Shares issued pursuant to exercise of stock options (Note 12(a))	175	34	-	-	-	-	-	-	-	34
Fair value of options exercised (Note 12(a))	-	117	-	-	-	(117)	-	-	-	-
Comprehensive (loss) income	-	-	-	-	-	-	-	(88,570)	1,813	(86,757)
<b>Balance December 31, 2010</b>	530,021	736,238	1,223	65,610	330	62,970	(5,558)	(270,808)	2,021	592,026

See accompanying notes to the consolidated financial statements.

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

	2010	2009
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(86,757)	(15,323)
Items not involving cash		
Amortization	21,420	10,225
Stock-based compensation (Note 12(b))	1,417	6,843
Accretion of interest on convertible loan (Note 10)	3,634	5,315
Unrealized foreign exchange loss (gain)	101,810	(656)
Impairment of mineral properties (Note 7)	-	10,954
Impairment of inventories (Note 5)	605	-
Allowance for receivables (Note 4)	1,789	-
Accretion of asset retirement obligations (Note 11)	1,154	826
Loss on sale of short-term investments	-	14
Gain on repurchase of convertible loan	-	(2,206)
Recovery for future income taxes	(23,426)	(3,495)
	<u>21,646</u>	<u>12,497</u>
Asset retirement costs (Note 11)	(170)	(64)
Receivables non-current	254	(6,399)
Accrual for termination benefits non-current	2,577	126
Changes in non-cash working capital items (Note 16)	18,387	(18,876)
	<u>42,694</u>	<u>(12,716)</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(16,568)	(11,182)
Expenditures on property, plant and equipment	(5,820)	(6,994)
Purchase of short-term investments	-	(39,636)
Redemption of short-term investments	3,806	17,024
Proceeds on sale of short-term investments	-	18,792
	<u>(18,582)</u>	<u>(21,996)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds for warrants committed (Note 12(c)(ii))	330	-
Gross proceeds from shares issued in public offering (Note 12(a)(ii))	-	64,636
Cash received from exercise of stock options (Note 12(a))	34	-
Share issue costs (Note 12(a)(ii))	-	(4,355)
Convertible loan restructuring costs (Note 10)	(842)	-
Convertible loan repayments (Note 10)	(30,000)	-
Repurchase of convertible loan	-	(16,907)
Repayment of note payable	-	(500)
	<u>(30,478)</u>	<u>42,874</u>
Impact of foreign exchange rate changes on cash	-	13
	<u>(6,366)</u>	<u>8,175</u>
<b>(DECREASE) INCREASE IN CASH</b>	<b>(6,366)</b>	<b>8,175</b>
Cash – beginning of year	10,420	2,245
<b>CASH – END OF YEAR</b>	<b>4,054</b>	<b>10,420</b>

**Supplemental cash flow information (Note 16)**

See accompanying notes to the consolidated financial statements.

**RUSORO MINING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**  
**(Expressed in thousands, except per share amounts) (US Dollars)**

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## **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 Corporación Venezolana de Guayana (“CVG”), maturing in 20 to 25 years (from the grant date), with some concessions extendable for two additional subsequent periods of 10 years each.

The Company currently holds an 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. The Company operates the Isidora Mine under a joint venture agreement with the Venezuelan government (Note 19). The Company also holds various exploration projects and two development projects in Venezuela and a single exploration project in Honduras.

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.

A debt principal repayment of \$30,000 is due in June 2011 derived from a loan agreement (pursuant to which the Company obtained “the Loan”) entered into with a syndicate of private lenders (“the Lenders”) in June 2008 and was restructured in June 2010 (Note 10). Management does not believe that cash flows from operations will be sufficient to make the required debt principal repayment in June 2011.

The Company believes it has financing options that 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 the sources of funding described above will be available to the Company, or that they 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**  
**DECEMBER 31, 2010**  
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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, 2010 are as follows:

Subsidiary	Ownership Interest	Status
Promotora Minera de Guayana, P.M.G., S.A.	95%	Consolidated
Minera Venrus C.A.	50%	Proportionately Consolidated
Minera Rusoro Venezolana C.A.	50%	Proportionately Consolidated
El Callao Gold Mining Company de Venezuela S.C.S.	50%	Proportionately Consolidated
Proyectos Mineros del Sur, PROMINSUR, C.A.	100%	Consolidated
Corporación Aurífera 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

**(b) Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated 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 receivables and short-term 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 of mineral properties and property, plant and equipment; 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 and assumptions used in accounting for stock-based compensation and warrants.

**(c) Foreign Currencies**

The functional currency of the Company is the US Dollar.

During the period up to December 31, 2009, the subsidiaries acquired as a result of the acquisition of the Choco Mine and the Isidora Mine were considered self-sustaining foreign operations and their main economic operating environment was Venezuela and as a result their functional currency was the Venezuelan Bolivar Fuerte (“BsF”). Substantially all revenues, expenses, assets and liabilities were denominated in BsF and 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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**  
**(Expressed in thousands, except per share amounts) (US Dollars)**

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gains or losses arising upon translation are recognized on the consolidated balance sheet as a component of accumulated other comprehensive loss, in the equity section of the balance sheet.

The remaining subsidiaries were considered to be integrated foreign operations and 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.

Commencing January 1, 2010, the Company determined that the Venezuelan economy became highly inflationary and as a result the self-sustaining foreign operations discussed above were translated using the temporal method.

In 2003, the Venezuelan government implemented foreign exchange controls, which fixed the rate of exchange between the Venezuelan Bolivar ("Bs") and the US Dollar. Effective January 1, 2008 the Venezuelan government changed the name of the currency to the BsF 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. 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 did not apply to transactions with certain securities denominated in BsF, which could be swapped for securities denominated in another currency effectively resulting in a swap market ("Swap Market") which provided an implicit value for the exchange rate for the BsF/US Dollar ("the Implicit Exchange Rate"). The Company used the Implicit Exchange Rate to translate BsF transactions and balances of the Company's subsidiaries up to May 16, 2010.

Effective May 17, 2010, the Venezuelan government enacted the Reform of the Criminal Exchange Law which aimed to regulate the Swap Market. The Reform of the Criminal Exchange Law effectively closed the Swap Market and therefore the Company is no longer able to use the Implicit Exchange Rate to translate BsF transactions and balances.

On June 9, 2010 the Venezuelan government enacted additional reforms to its exchange control regulations and introduced Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME") a newly regulated foreign exchange system controlled by the Central Bank of Venezuela ("the CBV"). The SITME imposes volume restrictions on the conversion of BsF to US Dollars of \$350 per month per Venezuelan entity that meets the SITME requirements; Promotora Minera de Guayana, P.M.G., S.A. ("PMG") has been registered with SITME.

Due to SITME volume restrictions and the fact the Company settles the majority of sales of finished gold at the official exchange rate specified by the CBV of BsF 4.30/\$1.00 the Company translated BsF transactions and balances subsequent to May 17, 2010 at the official exchange rate of BsF 4.30/\$1.00.

**(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.

**RUSORO MINING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**  
**(Expressed in thousands, except per share amounts) (US Dollars)**

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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.

Materials and supplies are valued at the lower of average cost and net realizable value.

**(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 discounted future cash flows are less than the carrying value.

**(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.

**RUSORO MINING LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**  
(Expressed in thousands, except per share amounts) (US Dollars)

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**(l) Deferred Revenue**

Deferred revenue represents payments received for finished gold where revenue recognition criteria described below have not been met as of the balance sheet date.

**(m) Convertible Loan**

The convertible loan was initially recorded at fair value and subsequently measured at amortized cost. Upon restructuring, the convertible loan was recorded at fair value and is subsequently measured at amortized cost. The convertible loan was 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 being accreted to its restructured face value using the effective interest rate method (previously being accreted to the initial face value), with the resulting charge recorded as accretion on convertible loan, which is included in interest on convertible loan in the consolidated statement of operations.

**(n) 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.

**(o) 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.

**(p) 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.

**(q) 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.

**(r) Stock-based Compensation**

The fair value of stock option 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.

**(s) Non-controlling Interest**

A 5% non-controlling interest exists in PMG, which represents the outside interest's share of the carrying value of PMG.

**(t) Earnings (loss) per Share**

Earnings (loss) per share is calculated by dividing the net earnings (loss) for the year attributable to the equity shareholders of the Company 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 used for the calculation of diluted earnings per share.

**(u) Investment in Joint Venture**

The Company conducts a portion of its business through a joint venture 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.

**(v) 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.

### **3. CHANGES IN ACCOUNTING POLICIES**

In January 2009, the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections were issued: Section 1582, *Business Combinations* ("Section 1582"), Section 1601, *Consolidated Financial Statement* ("Section 1601"), and Section 1602, *Non-controlling Interests* ("Section 1602"). Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1601 and Section 1602 establish standards for the preparation of consolidated financial statements and the accounting for non-controlling interests in consolidated financial statements that are equivalent to the standards under IFRS. 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.

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Under Section 1582, the definition of a business is expanded. Acquisition related costs, other than costs to issue debt or equity securities, of the acquirer, will no longer be capitalized, but rather expensed as incurred. Assets acquired and liabilities assumed can be recorded at 100% of fair value of the acquiree even if less than 100% is obtained. Under Section 1602, non-controlling interests are classified as part of equity and net earnings or loss and total comprehensive income or loss will include the portion attributable to non-controlling interests. The provisions of Section 1602 have been applied prospectively with exception of the presentation and disclosure provisions, which have been applied for all prior periods presented in the consolidated financial statements. The presentation and disclosure provisions resulted in the classification of non-controlling interests as a separate component of equity on the consolidated balance sheet amounting to \$2,021 as at December 31, 2010 (December 31, 2009: \$208).

The Company discloses separately within the equity section of the balance sheet the value of the share purchase warrants. Prior accounting treatment included the value of the share purchase warrants within the contributed surplus component of equity.

**4. RECEIVABLES**

	December 31, 2010	December 31, 2009
	\$	\$
VAT receivable (a)	23,129	12,943
Trade receivable (b)	2,311	-
Receivable from mining contractor (c)	-	1,172
Other receivables (d)	1,623	2,079
Receivables from related companies (Note 14)	283	204
Total receivables	<u>27,346</u>	<u>16,398</u>
Non-current VAT receivable (e)	(14,591)	(12,335)
Non-current receivable from mining contractor (f)	-	(706)
Non-current receivables	<u>(14,591)</u>	<u>(13,041)</u>
Current receivables	<u>12,755</u>	<u>3,357</u>

- a) VAT receivable relates to value added tax paid in Venezuela that is recoverable from the requisite authorities. VAT receivable includes an allowance for doubtful collection of \$3,134 (December 31, 2009: \$969). During the year ended December 31, 2010 the Company recorded an allowance for VAT receivable of \$1,789 (2009: \$Nil) in other expenses. The Company sold a portion of the balance after receiving approval from the Venezuelan tax authority for partial collection subsequent to December 31, 2010 (Note 23).
- b) Trade receivable relates to the sale of gold to the CBV.
- 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 relates to HST receivable and to sundry receivables from a mining contractor in relation to services performed at one of the Company's mineral properties.
- 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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**5. INVENTORIES**

	December 31, 2010	December 31, 2009
	\$	\$
Finished gold	11,499	37,858
Gold in process	3,440	2,226
Gold in stockpile	16,383	6,754
Materials and supplies	7,654	6,147
	<u>38,976</u>	<u>52,985</u>

As at December 31, 2010 and December 31, 2009, all inventories were recorded at the lower of average cost and net realizable value. Included in mining operating expenses is \$605 of impairment to inventories in order to adjust ending balances to their net realizable values.

**6. PROPERTY, PLANT AND EQUIPMENT**

	December 31, 2010		
	Cost	Accumulated Amortization and Depletion	Net Book Value
	\$	\$	\$
Mining properties	607,449	(15,517)	591,932
Mining plant and equipment	115,929	(44,853)	71,076
Office and computer equipment	382	(221)	161
Construction in progress	5,827	-	5,827
	<u>729,587</u>	<u>(60,591)</u>	<u>668,996</u>

	December 31, 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	382	(134)	248
Construction in progress	5,751	-	5,751
	<u>721,232</u>	<u>(46,047)</u>	<u>675,185</u>

Construction in progress relates to upgrades to the Choco Mine mill, equipment construction, 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 are the net book values associated with the Company's operating mines and corporate head office as follows:

	Mining Properties			Property, Plant and Equipment (excluding mining properties)	December 31, 2010	December 31, 2009
	Depletable	Non-Depletable(*)	Total			
	\$	\$	\$	\$	\$	\$
Choco Mine	52,332	508,295	560,627	66,276	626,903	630,589
Isidora Mine	1,450	29,855	31,305	6,712	38,017	39,991
Other Venezuelan properties	-	-	-	3,916	3,916	4,357
Corporate head office	-	-	-	160	160	248
	<u>53,782</u>	<u>538,150</u>	<u>591,932</u>	<u>77,064</u>	<u>668,996</u>	<u>675,185</u>

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

## 7. MINERAL PROPERTIES

	San Rafael El Placer	Incredible 6	El Callao	Valle Hondo	Other Properties	Total
	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2008</b>	25,192	61,905	149,223	23,161	15,090	274,571
Exploration and development costs	9,077	957	-	497	-	10,531
Impairment of mineral properties	-	-	(5,087)	-	(5,867)	(10,954)
Unrealized foreign exchange loss	-	-	(6,754)	-	(219)	(6,973)
<b>Balance, December 31, 2009</b>	<u>34,269</u>	<u>62,862</u>	<u>137,382</u>	<u>23,658</u>	<u>9,004</u>	<u>267,175</u>
Exploration and development costs	15,946	2,389	-	62	259	18,656
<b>Balance, December 31, 2010</b>	<u>50,215</u>	<u>65,251</u>	<u>137,382</u>	<u>23,720</u>	<u>9,263</u>	<u>285,831</u>

The Company holds mineral rights for a group of projects in Bolivar State, southern Venezuela and for a single project in Honduras. During 2009, the Company recorded an impairment of mineral properties totalling \$10,954 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.

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**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2010	December 31, 2009
	\$	\$
Accounts payable	19,803	7,557
Accrued liabilities	34,007	19,571
Accrual for termination benefits	4,273	2,135
Accrual for interest on convertible loan (Note 10)	175	350
Current portion of asset retirement obligations (Note 11)	503	250
Due to related parties (Note 14)	309	96
	<u>59,070</u>	<u>29,959</u>

**9. DEFERRED REVENUE**

The Company received \$6,973 which represents full payment for the future delivery of six thousand five hundred ounces of finished gold and the commitment to issue 12,355 share purchase warrants (Note 12(c)(ii)). The Company was originally required to deliver this finished gold prior to January 11, 2011. During the year ended December 31, 2010, the transaction was amended for future delivery of six thousand five hundred ounces of finished gold to occur over the six-months ended June 2011. In exchange, the Company has committed to delivering an additional eight hundred ounces of finished gold in July 2011. In relation to the Company's commitment to issuing 12,355 share purchase warrants, the \$330 value associated with these committed share purchase warrants has been deducted from the \$6,973.

**10. CONVERTIBLE LOAN**

On June 10, 2008, the Company entered into the Loan to fund the acquisition of El Callao Gold Mining Ltd. and Drake-Bering Holdings B.V. including their wholly-owned subsidiaries Minera Rusoro Venezolana C.A. ("Minera Rusoro") and El Callao Gold Mining Company de Venezuela S.C.S. ("El Callao Gold Mining") from Hecla Mining Company and for general corporate purposes. Under the original terms, the Loan had a two-year term, a contractual rate of interest of 10% per annum and was secured by share pledges over the Company's principal assets including the Choco Mine (Note 6) and the San Rafael El Placer and Incredible 6 mineral properties (Note 7) but excluded the Isidora Mine (Note 6). Under the original terms, the lenders had 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 of \$1.07 (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.

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 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 bore 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

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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 deficit in the balance sheet. The \$60,000 remaining principal portion of the Loan was due in June 2010.

On June 10, 2010, the original due date of the Loan, the Company made a \$17,000 principal payment and restructured the remaining \$43,000 principal portion of the Loan. The restructured terms required the Company to make a second principal payment of \$13,000 including accrued interest at a contractual rate of 10% per annum on or before July 10, 2010 (paid on June 22, 2010) and a final principal payment of \$30,000 (“the Reduced Principal”) on or before June 10, 2011. The Reduced Principal bears interest at a contractual rate of 10% per annum (effective annual interest rate of 21.1% including costs of restructuring) and interest is payable quarterly. Based on the restructured terms, the conversion price of the Reduced Principal was adjusted to \$0.40 (subject to adjustment depending on future equity financings and other transactions entered into by the Company), the Company issued 30,000 warrants (Note 12(c)(i)) to the Lenders and the Company can repay the Loan at any time by repaying the outstanding principal in full, plus interest accrued to the repayment date. All other terms of the Loan remain unchanged.

Loan restructuring costs include \$873 fair value of 30,000 warrants issued (Note 12(c)(i)) and other costs of \$842. As a result of the restructuring, the January 1, 2010 carrying value of the equity component of convertible loan of \$4,733 was eliminated against contributed surplus to recognize the modification of the Loan. To recognize the modified fair value of the conversion option to shares of the convertible loan after restructuring, the liability component of the Loan was reduced by \$1,223, with a corresponding increase in equity component of convertible loan.

	<b>\$</b>
<b>Equity component at December 31, 2008</b>	6,310
Repurchase of convertible loan	(1,577)
	<hr/>
<b>Equity component at December 31, 2009</b>	4,733
Extinguishment of conversion option to shares	(4,733)
Modification of conversion option to shares	1,223
	<hr/>
<b>Equity component at December 31, 2010</b>	<b>1,223</b>
	<hr/>
	<b>\$</b>
<b>Liability component at December 31, 2008</b>	69,045
Accretion of interest	8,003
Liability component repurchased	(19,113)
	<hr/>
<b>Liability component at December 31, 2009</b>	57,935
Accretion of interest	3,634
Loan repayments	(30,000)
Decrease in fair value at the time of restructuring	(1,223)
Loan restructuring costs	(1,715)
	<hr/>
<b>Liability component at December 31, 2010</b>	<b>28,631</b>
	<hr/>

## 11. 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 17.6% (2009: 16.5%).

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A continuity of the asset retirement obligations is as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Balance, beginning of the year</b>	3,375	2,806
Change in estimate of future costs	(60)	(204)
Accretion expense	1,154	826
Settled in year	(170)	(64)
Incurred in year	479	68
Foreign exchange loss (gain)	1,175	(57)
<b>Balance, end of the year</b>	<u>5,953</u>	<u>3,375</u>
Less: current portion of asset retirement obligations, included in accounts payable and accrued liabilities (Note 8)	(503)	(250)
<b>Long-term asset retirement obligation</b>	<u><u>5,450</u></u>	<u><u>3,125</u></u>

The undiscounted estimated future cash flows required to settle the asset retirement obligations incurred to December 31, 2010 are approximately \$12,023 (December 31, 2009: \$7,552) which are expected to be expended between 2011 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).

## **12. SHARE CAPITAL**

### **Authorized Share Capital of the Company**

Unlimited number of common shares without par value.

#### **(a) Issued Capital**

	<b>Number of</b>	<b>Amount</b>
	<b>Shares</b>	<b>\$</b>
<b>Balance, December 31, 2008</b>	390,778	674,556
Shares issued to financial advisor (i)	5,734	1,250
Shares issued in public offering (ii)	133,334	64,636
Share issue costs (ii)	-	(4,355)
<b>Balance, December 31, 2009</b>	<u>529,846</u>	<u>736,087</u>
Shares issued pursuant to exercise of stock options	175	34
Fair value of stock options exercised	-	117
<b>Balance, December 31, 2010</b>	<u><u>530,021</u></u>	<u><u>736,238</u></u>

- i. 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 16 and 20(b)(i)).

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- ii. 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 (Note 14).

**(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, 2010:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Number of Options Outstanding and Exercisable</u>	<u>Weighted Average Exercise Price</u>
C\$0.20 – C\$0.27	10,195	C\$0.20	8.22	9,872	C\$0.20
C\$0.60	15,230	C\$0.60	8.08	15,230	C\$0.60
C\$1.11 – C\$1.70	15,357	C\$1.31	7.37	15,357	C\$1.31
C\$2.12 – C\$2.30	7,150	C\$2.19	6.07	7,150	C\$2.19
\$3.00	1,600	\$3.00	5.56	1,600	\$3.00
	<u>49,532</u>	<u>\$1.05</u>	<u>7.52</u>	<u>49,209</u>	<u>\$1.06</u>

Stock option transactions are summarized as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price \$</u>
<b>Outstanding, December 31, 2008</b>	35,338	1.61
Issued	16,230	0.50
Expired	(352)	0.99
Forfeited	(70)	0.57
<b>Outstanding, December 31, 2009</b>	<u>51,146</u>	<u>1.32</u>
Issued	5,527	0.19
Forfeited	(6,966)	2.28
Exercised	(175)	0.20
<b>Outstanding December 31, 2010</b>	<u><u>49,532</u></u>	<u><u>1.05</u></u>

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

	<u>2010</u>	<u>2009</u>
<b>Assumptions</b>		
Dividend yield	0%	0%
Annualized volatility	55% - 59%	62% - 109%
Risk-free interest rate	1.31% - 2.87%	1.16% - 3.01%
Expected life (years)	2 - 10	2 - 10
<b>Weighted average grant date fair value per option</b>	<b>\$0.13</b>	<b>\$0.35</b>

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During the year ended December 31, 2010, the Company amended the exercise price of 4,844 stock options with original prices ranging from C\$0.60 - \$3.00 to C\$0.20. During the year ended December 31, 2009, the Company amended the exercise price of 3,610 stock options with original 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.

**(c) Warrants**

**(i) Share Purchase Warrants**

Share purchase warrant transactions are summarized as follows:

	<b>Number of Share Purchase Warrants</b>	<b>Amount \$</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance, December 31, 2008 and 2009</b>	108,800	64,737	3.88
Share Purchase Warrants	30,000	873	0.39
<b>Balance, December 31, 2010</b>	<u>138,800</u>	<u>65,610</u>	<u>3.29</u>

On August 13, 2010 the Company issued 30,000 share purchase warrants to the Lenders as a result of the restructuring of the Loan (Note 10).

The total fair value of the share purchase warrants issued for the periods presented was estimated using the Black-Scholes option-pricing model and resulted in the following amounts:

	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>Assumptions</b>		
Dividend yield	0%	-
Annualized volatility	57%	-
Risk-free interest rate	1.82%	-
Expected life (years)	1.6	-
<b>Weighted average fair value per share purchase warrant</b>	<b>\$0.03</b>	<b>-</b>

The following share purchase warrants were outstanding as at December 31, 2010:

<b>Number of Share Purchase Warrants <u>Outstanding and Exercisable</u></b>	<b><u>Exercise Price</u></b>	<b><u>Expiry Date</u></b>
5,833	\$3.35	November 7, 2011
30,000	C\$0.40	December 10, 2011
9,217	C\$5.25	March 4, 2012
93,750	C\$4.00	November 30, 2012
<u>138,800</u>		

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**(ii) Share Purchase Warrants Committed**

Share purchase warrants committed transactions are summarized as follows:

	<u>Number of Share Purchase Warrants Committed</u>	<u>Amount \$</u>	<u>Weighted Average Exercise Price \$</u>
<b>Balance, December 31, 2008 and 2009</b>	-	-	-
Share purchase warrants committed	12,355	330	0.39
<b>Balance, December 31, 2010</b>	<u>12,355</u>	<u>330</u>	<u>0.40</u>

During the year ended December 31, 2010, the Company committed to issuing 12,355 share purchase warrants to a gold buyer as an inducement related to an advance for the delivery of finished gold ounces (Note 9). The exercise price of the warrants committed is C\$0.40 and the expiry date is November 10, 2011. These share purchase warrants will be exercisable on issuance and as at December 31, 2010 were pending regulatory approval. On March 17, 2011 these share purchase warrants were issued (Note 23).

The total fair value of the share purchase warrants committed for the periods presented was estimated using the Black-Scholes option-pricing model and resulted in the following amounts:

	<u>2010</u>	<u>2009</u>
<b>Assumptions</b>		
Dividend yield	0%	-
Annualized volatility	57%	-
Risk-free interest rate	1.81%	-
Expected life (years)	1.4	-
<b>Weighted average fair value per share purchase warrant committed</b>	\$0.03	-

**(d) Contributed Surplus**

	<u>Amount \$</u>
<b>Balance, December 31, 2008</b>	50,070
Stock-based compensation	6,867
<b>Balance, December 31, 2009</b>	<u>56,937</u>
Stock-based compensation	1,417
Reclassification to share capital on conversion of stock options	(117)
Extinguishment of Loan conversion option to shares (Note 10)	4,733
<b>Balance, December 31, 2010</b>	<u>62,970</u>

**13. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The components of accumulated other comprehensive loss are as follows:

	<u>December 31, 2010 \$</u>	<u>December 31, 2009 \$</u>
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	<u>(5,558)</u>	<u>(5,558)</u>

#### **14. RELATED PARTY TRANSACTIONS**

- a) Included in receivables (Note 4) 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 \$283 (December 31, 2009: \$204). These amounts are unsecured and non-interest bearing with no set terms of repayment.
- b) Included in amounts capitalized as property, plant and equipment is \$Nil (December 31, 2009: \$1,094) and included in amounts capitalized as mineral properties is \$216 (December 31, 2009: \$380) 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.
- c) Included in accounts payable and accrued liabilities (Note 8) 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 also to a law firm of which a director of the Company is a partner in the amount of \$309 (December 31, 2009: \$96). These amounts are unsecured, due on demand and non-interest bearing.
- d) Included in general and administrative expenses is \$Nil (2009: \$34) related to the cost of running the Company's office of representation in Moscow from a company of which a director/officer of the Company has significant influence and \$109 (2009: \$102) 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.
- e) Included in convertible loan (Note 10) are financing costs of \$80 (December 31, 2009: \$Nil), included in share capital (Note 12(a)(ii)) are share issuance costs of \$Nil (December 31, 2009: \$23), included in general and administrative expenses is \$116 (2009: \$164) and included in litigation and unsuccessful acquisition costs is \$Nil (2009: \$190) related to the provision of legal services which were paid to a law firm of which a director of the Company is a partner.
- f) 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.

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 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;
- f) Safeguard the Company's ability to continue as a going concern.

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

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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, 2010.

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2010</b>	<b>2009</b>
	<b>⌘</b>	<b>⌘</b>
<b>CHANGES IN NON-CASH WORKING CAPITAL ITEMS</b>		
Receivables	(5,469)	5,647
Inventories	6,703	(26,545)
Prepaid expenses and deposits	(4,685)	976
Accounts payable and accrued liabilities	14,666	2,523
Deferred revenue	6,643	-
Income taxes payable	529	(1,477)
	<u>18,387</u>	<u>(18,876)</u>
	<b>2010</b>	<b>2009</b>
	<b>⌘</b>	<b>⌘</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Accounts payable and accrued liabilities – Expenditures on mineral properties	945	(2,050)
Accounts payable and accrued liabilities – Expenditures on property, plant and equipment	2,276	(248)
Accounts payable and accrued liabilities – Acquisition	-	(500)
Amortization capitalized – Mineral properties	1,143	1,566
Stock based compensation capitalized – Mineral Properties	-	24
Shares issued to financial advisor (Note 12(a)(i))	-	1,250
Warrants issued on Loan restructuring (Note 10)	873	-
	<b>2010</b>	<b>2009</b>
	<b>⌘</b>	<b>⌘</b>
<b>OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS</b>		
Interest paid	4,543	7,000
Taxes paid	70	1,652

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**17. INCOME TAXES**

**(a) Provision for Income Taxes**

The reconciliation of the expected income tax recovery at the statutory rate of 28.5% (2009: 30%) and the actual income tax recovery is as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Loss before taxes	(109,649)	(16,239)
Statutory tax rate	28.5%	30.0%
Expected income tax recovery	(31,250)	(4,872)
Rate difference in foreign jurisdictions	(3,860)	2,865
Foreign exchange and other permanent differences	12,214	(1,851)
Impact of reduction in enacted rates	1,730	664
Prior year (under) over accruals	(263)	40
Change in valuation allowance	(1,463)	2,238
Income tax recovery	<u>(22,892)</u>	<u>(916)</u>

**(b) Future Income Tax Liability**

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

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Future income tax assets (liabilities):		
Non-capital loss carried forward	15,047	14,285
Property, plant and equipment	10,499	7,087
Mineral properties	16,350	9,024
Share issuance costs	1,365	4,071
Other	8,631	(6,553)
Valuation allowance	(18,657)	(20,120)
	<u>33,235</u>	<u>7,794</u>
Property, plant and equipment	(288,863)	(211,232)
Mineral properties	(82,289)	(59,270)
Other	(1,056)	(1,697)
	<u>(372,208)</u>	<u>(272,199)</u>
	<u>(338,973)</u>	<u>(264,405)</u>

The future income tax liability of \$338,973 (December 31, 2009: \$264,405) 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 the future income tax liability will decrease with an offsetting recovery of future income taxes in the consolidated statement of operations.

As at December 31, 2010, the Company had for deduction against future taxable income in Canada non-capital losses of approximately C\$60,456 (December 31, 2009: C\$50,355). These losses, if utilized, have

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expiration years ranging from 2011 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 89,381 (December 31, 2009: BsF 56,302), 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 2010 \$	Isidora Mine 2010 \$	Exploration and Development 2010 \$	Corporate 2010 \$	Total 2010 \$
Revenues	124,177	19,495	-	-	143,672
Mining operating expenses	(92,277)	(19,238)	-	-	(111,515)
Mining amortization	(18,154)	(3,266)	-	-	(21,420)
General and administrative	-	-	(2,817)	(6,370)	(9,187)
Stock-based compensation	-	-	-	(1,417)	(1,417)
Interest on convertible loan	-	-	-	(8,005)	(8,005)
Foreign exchange loss	(71,587)	(6,894)	(22,276)	(91)	(100,848)
Other (expenses) income	(1,647)	1,032	(307)	(7)	(929)
Income tax recovery	18,538	4,354	-	-	22,892
Loss from operations	(40,950)	(4,517)	(25,400)	(15,890)	(86,757)
<b>Capital asset expenditures</b>	<b>4,410</b>	<b>676</b>	<b>17,302</b>	<b>-</b>	<b>22,388</b>

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	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)
Other (expenses) income	(1,129)	65	(312)	1,510	134
Income tax (expense) recovery	(1,437)	1,822	531	-	916
Earnings (loss) from operations	20,216	1,966	(12,594)	(24,911)	(15,323)
<b>Capital asset expenditures</b>	<b>3,557</b>	<b>3,030</b>	<b>11,582</b>	<b>7</b>	<b>18,176</b>

In the years ended December 31, 2010 and December 31, 2009, all revenue was generated by the operations in Venezuela.

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

	2010 \$	2009 \$
Customer A	118,952	-
Customer B	22,993	49,473
Customer C	-	11,993

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The Company's segment information is as follows:

	Choco Mine December 31, 2010 \$	Isidora Mine December 31, 2010 \$	Exploration and Development December 31, 2010 \$	Corporate December 31, 2010 \$	Total December 31, 2010 \$
<b>Assets</b>					
Current assets	45,111	15,420	7,735	292	68,558
Receivables non-current	11,103	-	3,488	-	14,591
Property, plant and equipment	626,903	38,017	3,916	160	668,996
Mineral properties	-	-	285,831	-	285,831
	<u>683,117</u>	<u>53,437</u>	<u>300,970</u>	<u>452</u>	<u>1,037,976</u>

	Choco Mine December 31, 2009 \$	Isidora Mine December 31, 2009 \$	Exploration and Development December 31, 2009 \$	Corporate December 31, 2009 \$	Total December 31, 2009 \$
<b>Assets</b>					
Current assets	47,901	11,616	5,486	13,653	78,656
Receivables non-current	11,110	-	1,931	-	13,041
Property, plant and equipment	630,589	39,991	4,357	248	675,185
Mineral properties	-	-	267,175	-	267,175
	<u>689,600</u>	<u>51,607</u>	<u>278,949</u>	<u>13,901</u>	<u>1,034,057</u>

## 19. JOINT VENTURE INTEREST

On July 4, 2008, the Company entered into an agreement ("the Mixed Enterprise Agreement") with MIBAM to create a mixed enterprise. Pursuant to the Mixed Enterprise Agreement, Minera Venrus C.A. ("Venrus C.A."), a Venezuelan corporation was incorporated on December 23, 2008, and is 50% owned by the Company and 50% owned by Empresa de Producción Social Minera Nacional, C.A. (a Venezuelan government entity). The Company conducts a portion of its business through this joint venture 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.

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

	December 31, 2010	December 31, 2009
	\$	\$
<b>Assets</b>		
Current assets	15,420	11,616
Property, plant and equipment	38,017	39,991
Mineral properties	184	184
	53,621	51,791
<b>Liabilities</b>		
Current liabilities	5,514	5,932
Other long-term liabilities	5,093	1,178
Future income tax liability	13,023	12,554
	23,630	19,664
	2010	2009
	\$	\$
Revenue	19,495	12,970
Expenses	(17,118)	(11,004)
Foreign exchange loss	(6,894)	-
<b>Net (loss) earnings</b>	(4,517)	1,966
<b>Cash Flows (Outflows)</b>		
Operating activities	(7,274)	3,055
Investing activities	(676)	(3,030)
Financing activities	8,350	-
<b>Increase in cash</b>	400	25

## 20. COMMITMENTS AND CONTINGENCIES

### (a) Commitments

At December 31, 2010, 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
	\$
2011	11,961
2012	8,789
2013	7,197
2014	6,059
2015 and thereafter	27,782
	61,788

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**(b) Contingencies**

(i) Gold Reserve Lawsuit

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 as an expense for litigation and unsuccessful acquisition in the consolidated statement of operations.

In December 2008 Gold Reserve commenced a claim against the Company and an advisor of the Company (“the Advisor”) seeking an injunction to restrain the Company’s unsolicited take-over bid for Gold Reserve as well as general damages of \$500,000 and punitive damages of \$50,000 on the basis that the Advisor improperly used Gold Reserve’s confidential information in advising the Company on the take-over bid. In February 2009, Gold Reserve obtained an interlocutory injunction to restrain the take-over bid. The Company subsequently served its defense and counterclaim in which it denied the allegations against it and sought damages of \$102,500 in respect of losses it has sustained as a result of the injunction’s issuance.

In June 2010 Gold Reserve amended its claim. The amended claim now seeks from the Company general damages of \$150,000 for trespass, conversion, and interference with contractual and economic relations, as well as punitive damages of \$50,000. The claim against the Advisor has also been reduced to a total of \$200,000. The outcome of this matter is not determinable at this time and no amount has been accrued in these consolidated financial statements for this claim.

(ii) Non-Compliance

During June 2010 the Company entered into transactions in the normal course of operations that were not in compliance with certain Venezuelan laws and regulations. As a result of this non-compliance, the Company may be subject to fines to a maximum of \$19,600 and/or denial of the Company’s ability to generate revenues. No amount has been accrued in these consolidated financial statements in connection with this matter since the outcome cannot be determined at this time.

(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, 2010, except for the liability component of the convertible loan which has a fair value (as determined by the net present value method) of \$28,121 (December 31, 2009: \$58,403).

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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, 2010 and December 31, 2009 classified as “Level One – Quoted prices in active markets” is cash. Short-term investments at December 31, 2009 are classified as “Level Two – Inputs other than quoted prices that are observable for the assets and liabilities either directly or indirectly”.

**(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 is exposed to the credit risk of the CBV as the Company’s trade receivables are due from the CBV.

**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 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, accessing capital markets, and refinancing of the Loan all or in part (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, 2010. The amounts disclosed are the contractual undiscounted cash flows.

	2011 \$	2012-2013 \$	Total \$
Accounts payable and accrued liabilities	58,895	-	58,895
Interest on convertible loan	1,500	-	1,500
Convertible loan	30,000	-	30,000
	<u>90,395</u>	<u>-</u>	<u>90,395</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, 2010, a 1% increase in interest rates would decrease the fair value of convertible loan by \$172 and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$174.

**(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. 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 for US Dollar operating and capital expenditures. As at December 31, 2010, the Company holds cash of \$3,626 (December 31, 2009: \$667) in BsF.

The sensitivity of the Company's net earnings 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, 2010	
	25% Increase in the BsF \$	25% Decrease in the BsF \$
Net earnings	(8,050)	6,440

	As at December 31, 2010	
	10% Increase in the C\$ \$	10% Decrease in the C\$ \$
Net earnings	(46)	42

**22. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the current years presentation.

**23. SUBSEQUENT EVENT**

On March 3, 2011, the Venezuelan tax authority authorized the sale of VAT receivable amounts from PMG to a third party. The amount of VAT receivable sold was \$7,787.

On March 17, 2011, regulatory approval was given for the issuance of the 12,355 committed share purchase warrants (Note 12(c)(ii)).