



**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Financial Statements**  
**For the Three and Nine Months Ended Sept 30, 2011**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**

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**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**



|   | September 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|---|-----------------------|----------------------|--------------------|
| <b>ASSETS</b>   |                       |                      |                    |
| <b>Current Assets</b>                                     |                       |                      |                    |
| Cash  | \$2,811               | \$4,054              | \$10,420           |
| Short-term investments                                    | 253                   | -                    | 3,806              |
| Receivables (Notes 5 and 16)                              | 15,218                | 12,755               | 3,357              |
| Inventories (Note 6)                                      | 38,556                | 38,169               | 52,985             |
| Prepaid expenses and deposits                             | 15,408                | 12,773               | 8,088              |
|   | <u>72,246</u>         | <u>67,751</u>        | <u>78,656</u>      |
| Receivables (Notes 5 and 16)                              | 5,664                 | 14,591               | 13,041             |
| Property, plant and equipment (Note 7)                    | 623,259               | 628,792              | 631,544            |
| Mineral properties (Notes 8 and 16)                       | 285,074               | 266,155              | 247,499            |
| Deferred tax assets                                       | 3,817                 | 3,208                | -                  |
|   | <u>\$990,060</u>      | <u>\$980,497</u>     | <u>\$970,740</u>   |
| <b>LIABILITIES</b>  |                       |                      |                    |
| <b>Current Liabilities</b>                                |                       |                      |                    |
| Accounts payable and accrued liabilities (Notes 9 and 16) | \$84,694              | \$55,043             | \$25,579           |
| Deferred revenue (Note 10a)                               | -                     | 6,643                | -                  |
| Derivative financial liability (Note 10b)                 | 10,760                | -                    | -                  |
| Income taxes payable                                      | 3,481                 | 3,691                | 2,812              |
| Convertible loan (Note 12 and 16)                         | 30,000                | 28,631               | 57,935             |
| Other current provisions                                  | 4,314                 | 4,314                | 4,331              |
|   | <u>133,249</u>        | <u>98,322</u>        | <u>90,657</u>      |
| Accrual for termination benefits                          | 4,029                 | 3,492                | 915                |
| Derivative financial liabilities – Warrants (Note 13)     | 15                    | 4,001                | 324                |
| Decommissioning and restoration provision (Note 11)       | 5,949                 | 4,491                | 2,421              |
| Deferred tax liabilities                                  | 198,737               | 209,229              | 238,887            |
|   | <u>341,979</u>        | <u>319,535</u>       | <u>333,204</u>     |
| <b>EQUITY</b>   |                       |                      |                    |
| Issued capital (Note 14)                                  | \$736,283             | \$736,238            | \$736,087          |
| Equity component of convertible loan (Note 12)            | -                     | 1,223                | 4,733              |
| Contributed surplus                                       | 64,183                | 62,970               | 56,937             |
| Deficit   | (154,505)             | (141,490)            | (160,429)          |
|   | <u>645,961</u>        | <u>658,941</u>       | <u>637,328</u>     |
| Non-controlling interests                                 | 2,120                 | 2,021                | 208                |
|   | <u>648,081</u>        | <u>660,962</u>       | <u>637,536</u>     |
|   | <u>\$990,060</u>      | <u>\$980,497</u>     | <u>\$970,740</u>   |

Nature of operations – Note 1  
Basis of presentation and going concern assumption – Note 2  
Commitments and contingencies – Note 21

**APPROVED BY THE BOARD OF DIRECTORS ON NOVEMBER 29, 2011.**

“Andre Agapov”  
\_\_\_\_\_  
Andre Agapov, Director

“Gordon Keep”  
\_\_\_\_\_  
Gordon Keep, Director

See accompanying notes to the condensed interim consolidated financial statements

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Comprehensive (Loss) Income**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**



|  | <b>Three Months<br/>Ended September 30,</b> |                | <b>Nine Months<br/>Ended September 30,</b> |                 |
|--|---|----------------|--|-----------------|
|  | <b>2011</b>                                 | 2010           | <b>2011</b>                                | 2010            |
| <b>REVENUES</b>  | \$30,034                                    | \$42,688       | \$85,096                                   | \$110,175       |
| <b>COSTS OF MINING OPERATIONS</b>                              |   |                |  |                 |
| Mining operating expenses (Notes 15 and 16)                    | 24,792                                      | 34,193         | 87,034                                     | 91,062          |
| Depreciation and depletion                                     | 3,011                                       | 4,209          | 9,630                                      | 15,685          |
|  | <u>27,803</u>                               | <u>38,402</u>  | <u>96,664</u>                              | <u>106,747</u>  |
| <b>PROFIT (LOSS) FROM MINING OPERATIONS</b>                    | <u>2,231</u>                                | <u>4,286</u>   | <u>(11,568)</u>                            | <u>3,428</u>    |
| Share-based compensation expense                               | 2   | 1,019          | 15   | 1,358           |
| General and administrative (Note 16)                           | 1,708                                       | 2,699          | 5,255                                      | 7,926           |
| Foreign exchange (gain) loss                                   | (1,603)                                     | (10,236)       | 1,078                                      | (2,269)         |
|  | <u>107</u>                                  | <u>(6,518)</u> | <u>6,348</u>                               | <u>7,015</u>    |
| <b>PROFIT (LOSS) FROM OPERATIONS</b>                           | <u>2,124</u>                                | <u>10,804</u>  | <u>(17,916)</u>                            | <u>(3,587)</u>  |
| Interest on convertible loan                                   | 767   | 1,477          | 3,629                                      | 6,511           |
| (Gain) loss on revaluation of derivative financial liabilities | (23)  | 554            | (4,088)                                    | (766)           |
| Loss on revaluation of gold contract (Note 10b)                | 4,828                                       | -              | 4,828                                      | -               |
| Impairment of property, plant and equipment                    | 402   | 288            | 2,308                                      | 1,141           |
| Other expenses (income)  | 326   | 164            | (369)                                      | 2,004           |
|  | <u>6,300</u>                                | <u>2,483</u>   | <u>6,308</u>                               | <u>8,890</u>    |
| <b>(LOSS) PROFIT BEFORE INCOME TAXES</b>                       | <u>(4,176)</u>                              | <u>8,321</u>   | <u>(24,224)</u>                            | <u>(12,477)</u> |
| Current income tax (recovery) expense                          | (206)                                       | 957            | (206)                                      | 957             |
| Deferred tax (recovery) expense                                | (2,302)                                     | 985            | (11,102)                                   | (24,306)        |
|  | <u>(2,508)</u>                              | <u>1,942</u>   | <u>(11,308)</u>                            | <u>(23,349)</u> |
| <b>NET (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME</b>       | <u>(\$1,668)</u>                            | <u>\$6,379</u> | <u>(\$12,916)</u>                          | <u>\$10,872</u> |
| <b>Attributable to:</b>  |   |                |  |                 |
| Non-controlling interests                                      | 345   | 563            | 99   | 1,016           |
| Equity shareholders of the Company                             | (2,013)                                     | 5,816          | (13,015)                                   | 9,856           |
|  | <u>(\$1,668)</u>                            | <u>\$6,379</u> | <u>(\$12,916)</u>                          | <u>\$10,872</u> |
| <b>(LOSS) EARNINGS PER SHARE</b>                               |   |                |  |                 |
| Basic and diluted  | (\$0.01)                                    | \$0.01         | (\$0.03)                                   | \$0.02          |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>           |   |                |  |                 |
| Basic  | 530,121                                     | 529,846        | 530,111                                    | 529,846         |
| Diluted  | 530,121                                     | 530,457        | 530,111                                    | 529,846         |

See accompanying notes to the condensed interim consolidated financial statements.

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**



|  | Issued capital |                  | Equity component of convertible loan | Contributed surplus | Deficit            | Non-controlling interests | Equity           |
|--|----------------|------------------|--------------------------------------|---------------------|--------------------|---------------------------|------------------|
|  | Shares         | Amount           |                                      |                     |                    |                           |                  |
| <b>Balance, January 1, 2010</b>                                  | 529,846        | \$736,087        | \$4,733                              | \$56,937            | (\$160,429)        | \$208                     | \$637,536        |
| Convertible loan repayment                                       | -              | -                | (4,733)                              | 4,733               | -                  | -                         | -                |
| Convertible loan modification                                    | -              | -                | 1,223                                | -                   | -                  | -                         | 1,223            |
| Share-based compensation expense (Note 14(c))                    | -              | -                | -                                    | 1,417               | -                  | -                         | 1,417            |
| Shares issued pursuant to exercise of share options (Note 14(b)) | 175            | 34               | -                                    | -                   | -                  | -                         | 34               |
| Fair value of share options exercised (Note 14(b))               | -              | 117              | -                                    | (117)               | -                  | -                         | -                |
| Comprehensive income   | -              | -                | -                                    | -                   | 18,939             | 1,813                     | 20,752           |
| <b>Balance, December 31, 2010</b>                                | <b>530,021</b> | <b>\$736,238</b> | <b>\$1,223</b>                       | <b>\$62,970</b>     | <b>(\$141,490)</b> | <b>\$2,021</b>            | <b>\$660,962</b> |
| Extinguishment of convertible option to share (Note 12)          | -              | -                | (1,223)                              | 1,223               | -                  | -                         | -                |
| Share-based compensation expense (Note 14(c))                    | -              | -                | -                                    | 15                  | -                  | -                         | 15               |
| Shares issued pursuant to exercise of share options (Note 14(b)) | 100            | 20               | -                                    | -                   | -                  | -                         | 20               |
| Fair value of share options exercised (Note 14(b))               | -              | 25               | -                                    | (25)                | -                  | -                         | -                |
| Comprehensive loss   | -              | -                | -                                    | -                   | (13,015)           | 99                        | (12,916)         |
| <b>Balance, September 30, 2011</b>                               | <b>530,121</b> | <b>\$736,283</b> | <b>\$-</b>                           | <b>\$64,183</b>     | <b>(\$154,505)</b> | <b>\$2,120</b>            | <b>\$648,081</b> |
| <b>Balance, January 1, 2010</b>                                  | 529,846        | \$736,087        | \$4,733                              | \$56,937            | (\$160,429)        | \$208                     | \$637,536        |
| Convertible loan repayment                                       | -              | -                | (4,733)                              | 4,733               | -                  | -                         | -                |
| Convertible loan modification                                    | -              | -                | 1,223                                | -                   | -                  | -                         | 1,223            |
| Share-based compensation expense (Note 14(c))                    | -              | -                | -                                    | 1,358               | -                  | -                         | 1,358            |
| Comprehensive income   | -              | -                | -                                    | -                   | 9,856              | 1,016                     | 10,872           |
| <b>Balance, September 30, 2010</b>                               | <b>529,846</b> | <b>\$736,087</b> | <b>\$1,223</b>                       | <b>\$63,028</b>     | <b>(\$150,573)</b> | <b>\$1,224</b>            | <b>\$650,989</b> |

See accompanying notes to the condensed interim consolidated financial statements.

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**



|  | <b>Nine Months<br/>Ended September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2011</b>                                | <b>2010</b>     |
| <b>CASH DERIVED FROM (USED IN)</b>   |  |                 |
| <b>OPERATING ACTIVITIES</b>  |  |                 |
| Net (loss) profit for the period   | (\$12,916)                                 | \$10,872        |
| Adjustments for items not involving cash:                                      |  |                 |
| Depreciation and depletion   | 9,755                                      | 15,686          |
| Share-based compensation expense   | 15   | 1,358           |
| Accretion of interest on convertible loan                                      | 1,369                                      | 2,900           |
| Unrealized foreign exchange loss (gain)  | 780  | (2,188)         |
| Impairment of property, plant and equipment                                    | 2,309                                      | 1,141           |
| Impairment of inventories  | 3,396                                      | -               |
| Allowance for receivables  | -  | 1,792           |
| Accretion of decommissioning and restoration provision<br>(Note 11)            | 1,708                                      | 901             |
| Gain on revaluation of derivative financial liabilities                        | (4,088)                                    | (766)           |
| Loss on revaluation of gold contract   | 4,828                                      | -               |
| Deferred tax recovery  | (11,102)                                   | (24,306)        |
|  | <u>(3,607)</u>                             | <u>7,390</u>    |
| Receivables non-current  | 8,927                                      | 2,568           |
| Liabilities non-current  | 537  | (1,009)         |
| Changes in non-cash working capital items (Note 18)                            | 14,029                                     | 27,304          |
|  | <u>19,547</u>                              | <u>36,253</u>   |
| <b>INVESTING ACTIVITIES</b>  |  |                 |
| Expenditures on property, plant and equipment                                  | (12,424)                                   | (4,667)         |
| Incidental income of mining properties with pre-commercial<br>gold production  | 6,542                                      | -               |
| Expenditures on mineral properties   | (20,214)                                   | (7,894)         |
| Incidental income of mineral properties with pre-commercial<br>gold production | 5,539                                      | -               |
| (Purchase) redemption of short-term investments                                | (253)                                      | 3,806           |
|  | <u>(20,810)</u>                            | <u>(8,755)</u>  |
| <b>FINANCING ACTIVITIES</b>  |  |                 |
| Cash received from exercise of share options                                   | 20   | -               |
| Proceeds for warrants committed  | -  | 330             |
| Convertible loan repayments  | -  | (30,000)        |
| Convertible loan restructuring costs   | -  | (838)           |
|  | <u>20</u>                                  | <u>(30,508)</u> |
| Impact of foreign exchange rate changes on cash                                | -  | 138             |
| <b>DECREASE IN CASH</b>  | <u>(1,243)</u>                             | <u>(2,872)</u>  |
| Cash – beginning of period   | 4,054                                      | 10,420          |
| <b>Cash – end of period</b>  | <u>2,811</u>                               | <u>7,548</u>    |

Supplemental cash flow information – Note 18

See accompanying notes to the condensed interim consolidated financial statements.

## **1. NATURE OF OPERATIONS**

Rusoro Mining Ltd. ("the Company") was incorporated under the laws of the Province of British Columbia on March 1, 2000. The registered office of the Company's corporate headquarters is located at 2164 – 1055 Dunsmuir Street, Vancouver, British Columbia, Canada. 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 from initial grant date, with some concessions extendable for two additional subsequent periods of 10 years each.

The Company currently holds interests 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 20). The Company also holds various exploration projects and one development project in Venezuela.

**On September 16, 2011, the Venezuelan government, through publication in the Official Gazette of Venezuela, enacted a law-decree ("the Decree") which reserves to the State of Venezuela exclusive rights for the extraction of gold in Venezuela ("the Nationalization"). According to the Decree, all Venezuelan mining assets, including those of the Company, must be transferred to a new mixed-interest enterprise ("the Mixed Enterprise"), of which private enterprises, such as the Company, cannot own more than 45%. The Decree stipulates that the Company has 90 days from September 16, 2011 to negotiate the terms and conditions of the forced migration of mining assets to the Mixed Enterprise, including the compensation to the Company for assets transferred to the Mixed Enterprise as a result of the Nationalization. If the Company is unable to agree upon the terms and conditions of the forced migration within the designated time period, all titles and rights to the Company's Venezuelan mining assets will revert to the Venezuelan government, provided that no extension is granted on the negotiation period. The mining assets and operations affected relate to the Choco mine, the Isidora mine, and the Company's exploration, evaluation and development properties (Note 19).**

As at September 30, 2011, there has been no change in the Company's nature of operations; the Company's negotiations with the Venezuelan government have not yet been finalized.

## **2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION**

These condensed interim unaudited consolidated financial statements ("interim financial statements") have been prepared based upon 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.

A debt principal repayment of \$30,000 became 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 12). The Company did not perform the repayment of the Loan for \$30,000 and management does not believe that cash flows from operations alone will be sufficient to make the required debt principal repayment. The Company is currently holding discussions with the Lenders for the granting of an extension to the Loan repayment period for a sufficient amount of time to allow the Company to determine the outcome of the Nationalization, and to collect any resulting proceeds.

## 2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION (Continued)

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, such as those described above and herein, that may cast significant doubt upon the entity's ability to continue as a going concern.

**There are many material uncertainties surrounding the Nationalization (Note 1), including, but not limited to, the amount of any compensation paid to the Company for its decrease in ownership of its Venezuelan mining assets, the timing of receipt of any such compensation, the Company's percentage of ownership in the Mixed Enterprise, if any, the structure of the transaction, such as through disposition of subsidiary companies or disposition of assets, and whether there will be a transfer to the Mixed Enterprise of the accounts payables and accrued liabilities of the subsidiaries related to the mining assets impacted by the Nationalization. With respect to the amount of any compensation to be paid to the Company by the Venezuelan government, the Decree states that it will be based upon the unamortized book value of the assets to be transferred to the Mixed Enterprise. The inability to reach a fair compensation, either through negotiation or other means, or inability to make successful collection of any such compensation could hinder the Company's ability to continue as a going concern.**

Management is able to conclude that application of the going concern assumption is still appropriate under these circumstances because, at the advice of legal counsel, potential outcomes have been identified, of which management deems the following to be the most likely given the information available as of the date of these interim financial statements:

- 1) A transfer of the Company's Venezuelan mining assets to the Mixed Enterprise upon mutually agreed-upon terms, including fair compensation paid to the Company; or
- 2) An inability to reach an agreement by the deadline stipulated by the Decree, after which the Venezuelan government seizes the mining assets of the Company as per the Decree. Under this scenario the Company would seek fair compensation through its rights under the bilateral investment treaty between Canada and Venezuela.

Under these circumstances, the Company believes it has financing options that could generate sufficient cash to service the Company's debt requirement, reduce its other current liabilities, and enable the Company to continue as a going concern, which include, but are not limited to, the following:

- Receipt of payment for the nationalization of the Venezuelan mining assets;
- Issuance of equity or debt securities; and
- 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 interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

The preparation of these interim financial statements resulted in changes to the accounting policies as compared to the most recent audited annual consolidated financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP").

The accounting policies discussed in note 3 have been applied to all periods presented in these interim financial statements and are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable for its annual consolidated financial statements for the year ending December 31, 2011.

## 2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION (Continued)

These interim financial statements, do not include all disclosure required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2010 presented under Canadian GAAP.

However, these interim financial statements represent part of the period covered by the Company's first IFRS annual financial statements, and as such, the disclosures contained herein exceed the minimum requirements under International Accounting Standard ("IAS 34"), *Interim Financial Reporting*. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim financial statements under IFRS as the reader will be able to refer to the annual consolidated financial statements for the year ending December 31, 2011, which will be prepared in accordance with IFRS.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Consolidation

These interim financial statements include the financial statements of the Company, its subsidiaries, and jointly controlled entities. Intercompany balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these interim financial statements.

The Company has determined that its interests in Minera Venrus C.A. ("Venrus C.A."), Minera Rusoro Venezolana C.A. ("Minera Rusoro") and El Callao Gold Mining Company de Venezuela S.C.S. ("El Callao Gold Mining") qualify as jointly controlled entities. Collectively, these entities constitute a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The joint venture participants are bound by articles of incorporation and bylaws, which establish joint control over the joint venture. The Company has elected to apply the proportionate consolidation method to account for its interests in Venrus C.A., Minera Rusoro and El Callao Gold Mining (Note 20).

The principal subsidiaries, jointly controlled entities, and the Company's ownership interests therein, are as follows:

| Company   | Location               | Ownership interest | Status                       |
|---|------------------------|--------------------|------------------------------|
| Promotora Minera de Guayana, P.M.G., S.A.         | Venezuela              | 95%                | Consolidated                 |
| Minera Venrus C.A.                                | Venezuela              | 50%                | Proportionately Consolidated |
| Minera Rusoro Venezolana C.A.                     | Venezuela              | 50%                | Proportionately Consolidated |
| El Callao Gold Mining Company de Venezuela S.C.S. | Venezuela              | 50%                | Proportionately Consolidated |
| Proyectos Mineros del Sur, PROMINSUR, C.A.        | Venezuela              | 100%               | Consolidated                 |
| Corporacion Aurifera de El Callo, C.A.            | Venezuela              | 100%               | Consolidated                 |
| Corporacion Minera Choco 9 C.A.                   | Venezuela              | 100%               | Consolidated                 |
| Corporacion 80.000 C.A.                           | Venezuela              | 100%               | Consolidated                 |
| Lamin Laboreos Mineros C.A.                       | Venezuela              | 100%               | Consolidated                 |
| Mineria MS C.A.                                   | Venezuela              | 100%               | Consolidated                 |
| General Mining de Guayana C.A.                    | Venezuela              | 100%               | Consolidated                 |
| Kryos Mining S.A.                                 | Venezuela              | 100%               | Consolidated                 |
| Inversiones Yuruan C.A.                           | Venezuela              | 100%               | Consolidated                 |
| Venezuela Holdings (BVI) Ltd.                     | British Virgin Islands | 100%               | Consolidated                 |

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Similarly, non-controlling interests in the components of comprehensive income are identified separately. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. 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.

#### **b. Basis of Measurement**

These interim financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expenses as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

#### **c. Significant Accounting Policies**

These interim financial statements of the Company have been prepared in accordance with IAS 34 as issued by the IASB and using the accounting policies the Company expects to adopt in its annual consolidated financial statements for the year ending December 31, 2011. The accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the year ending December 31, 2011 are disclosed in Note 3 of the Company's condensed interim unaudited consolidated financial statements as at and for the three months ended March 31, 2011.

As these interim financial statements are prepared using IFRS, certain disclosures that are required to be included in annual consolidated financial statements prepared in accordance with IFRS that were not included in the Company's most recent audited annual consolidated financial statements prepared in accordance with Canadian GAAP were included in the Company's condensed interim unaudited consolidated financial statements as at and for the three months ended March 31, 2011.

These interim financial statements should be read in conjunction with the Company's 2010 audited annual consolidated financial statements and in consideration of the IFRS transition disclosures included in Note 24 to these financial statements and the additional annual disclosures required under IFRS included in the Company's condensed interim audited consolidated financial statements as at and for the three months ended March 31, 2011.

### **4. RECENT ACCOUNTING PRONOUNCEMENTS**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not yet early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

#### **a. Accounting Standards Issued and Effective January 1, 2012**

IAS 12, *Income Taxes* (Amended), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7, *Financial Instruments: Disclosures* (Amended), requires additional disclosures on transferred financial assets.

## 4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

### b. Accounting Standards Issued and Effective January 1, 2013

IFRS 9, *Financial Instruments*, replaces the current standard IAS 39, *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
- Defines the principle of control, and establishes control as the basis for consolidation;
- Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
- Sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 and SIC-12, *Consolidation – Special Purpose Entities*.

IFRS 11, *Joint Arrangements*, establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12, *Disclosure of Involvement with Other Entities*, requires the disclosure of information that enables users of consolidated financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13, *Fair Value Measurement*, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for the following:

- Share-based payment transactions within the scope of IFRS 2, *Share-based Payment*;
- Leasing transactions within the scope of IAS 17, *Leases*; and
- Measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

IAS 27, *Separate Financial Statements*, has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28, *Investments in Associates and Joint Ventures*, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

## 5. RECEIVABLES

|   | September 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|---|-----------------------|----------------------|--------------------|
| <b>Non-financial assets</b>                       |                       |                      |                    |
| VAT receivable (a)                                | \$17,266              | \$23,129             | \$12,943           |
| Non-current VAT receivable (b)                    | 5,664                 | 14,591               | 12,335             |
| Current, non-financial receivable                 | 11,602                | 8,538                | 608                |
| <b>Financial assets</b>                           |                       |                      |                    |
| Trade receivable (c)                              | 1,172                 | 2,311                | -                  |
| Receivable from mining contractor (d)             | -                     | -                    | 1,172              |
| Other receivables (e)                             | 2,444                 | 1,623                | 2,079              |
| Receivables from related companies (Note 16)      | -                     | 283                  | 204                |
| Financial receivables                             | 3,616                 | 4,217                | 3,455              |
| Non-current receivable from mining contractor (f) | -                     | -                    | 706                |
| Current, financial receivables                    | 3,616                 | 4,217                | 2,749              |
| <b>Total current receivables</b>                  | <b>\$15,218</b>       | <b>\$12,755</b>      | <b>\$3,357</b>     |
| <b>Total non-current receivables</b>              | <b>\$5,664</b>        | <b>\$14,591</b>      | <b>\$13,041</b>    |

- a) VAT receivable relates to value added tax ("VAT") paid in Venezuela that is recoverable from the requisite authorities. VAT receivable includes an allowance for doubtful collection of \$3,134 (December 31, 2010: \$3,134; January 1, 2010: \$969). During the three months and nine months ended September 30, 2011, the Company did not record an allowance for VAT receivable (three months and nine months ended September 30, 2010: \$1,792).
- b) Non-current VAT receivable relates to VAT receivable that management estimates will not be recovered for at least twelve months from the reporting date.
- c) Trade receivable relates to the sale of gold to the CBV and international gold customers. As at September 30, 2011, \$nil of the receivable balance was past due (December 31, 2010: \$Nil; January 1, 2010: \$Nil).
- d) Receivable from mining contractor relates to the sale of mining-fleet spare-part inventories and certain payroll recoverable from the mining contractor.
- e) 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.
- 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 estimated would not be collected for at least twelve months from the reporting date.

## 6. INVENTORIES

|                        | September 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|------------------------|-----------------------|----------------------|--------------------|
| Finished gold          | \$9,146               | \$11,351             | \$37,858           |
| Gold in process        | 1,910                 | 3,143                | 2,226              |
| Gold in stockpile      | 16,594                | 16,021               | 6,754              |
| Materials and supplies | 10,906                | 7,654                | 6,147              |
|                        | <b>\$38,556</b>       | <b>\$38,169</b>      | <b>\$52,985</b>    |

As at September 30, 2011, December 31, 2010 and January 1, 2010, all inventories were recorded at the lower of average cost and net realizable value.

## 7. PROPERTY, PLANT AND EQUIPMENT

|   | <b>Mining<br/>Properties</b> | <b>Mining Plant<br/>and<br/>Equipment</b> | <b>Office and<br/>Computer<br/>Equipment</b> | <b>Construction<br/>in Progress</b> | <b>Total</b>     |
|---|------------------------------|---|--|-------------------------------------|------------------|
| <b>Cost</b>   |                              |   |  |                                     |                  |
| <b>Balance, December 31, 2010</b>                                   | \$564,597                    | \$99,442                                  | \$381  | \$5,710                             | \$670,130        |
| Additions   | 7,510                        | 2,768                                     | -  | 2,559                               | 12,837           |
| Incidental proceeds from sale of pre-commercial gold production (a) | (6,542)                      | -   | -  | -                                   | (6,542)          |
| Impairments   | (2,042)                      | -   | -  | (267)                               | (2,309)          |
| <b>Balance, September 30, 2011</b>                                  | <u>563,523</u>               | <u>102,210</u>                            | <u>381</u>                                   | <u>8,002</u>                        | <u>674,116</u>   |
| <b>Accumulated depreciation, depletion and impairment</b>           |                              |   |  |                                     |                  |
| <b>Balance, December 31, 2010</b>                                   | 12,442                       | 28,675                                    | 221  | -                                   | 41,338           |
| Depreciation and depletion  | 1,694                        | 7,778                                     | 47   | -                                   | 9,519            |
| <b>Balance, Sept 30, 2011</b>                                       | <u>14,136</u>                | <u>36,453</u>                             | <u>268</u>                                   | <u>-</u>                            | <u>50,857</u>    |
| <b>Carrying Amount</b>  |                              |   |  |                                     |                  |
| <b>Balance, September 30, 2011</b>                                  | <u>\$549,387</u>             | <u>\$65,757</u>                           | <u>\$113</u>                                 | <u>\$8,002</u>                      | <u>\$623,259</u> |

a) During the nine months ended September 30, 2011, incidental proceeds of \$6,542 have been generated through the sale of gold mined from mining properties in pre-commercial production.

## 7. PROPERTY, PLANT AND EQUIPMENT (Continued)

|   | Mining Properties | Mining Plant and Equipment | Office and Computer Equipment | Construction in Progress | Total            |
|---|-------------------|----------------------------|-------------------------------|--------------------------|------------------|
| <b>Cost</b>   |                   |                            |                               |                          |                  |
| <b>Balance, January 1, 2010</b>                           | \$562,229         | \$94,279                   | \$381                         | \$4,589                  | \$661,478        |
| Additions   | 2,632             | 6,395                      | -                             | 1,121                    | 10,148           |
| Impairments   | (264)             | (1,232)                    | -                             | -                        | (1,496)          |
| <b>Balance, December 31, 2010</b>                         | <u>564,597</u>    | <u>99,442</u>              | <u>381</u>                    | <u>5,710</u>             | <u>670,130</u>   |
| <b>Accumulated depreciation, depletion and impairment</b> |                   |                            |                               |                          |                  |
| <b>Balance, January 1, 2010</b>                           | 9,259             | 20,541                     | 134                           | -                        | 29,934           |
| Depreciation and depletion                                | 3,183             | 8,134                      | 87                            | -                        | 11,404           |
| <b>Balance, December 31, 2010</b>                         | <u>12,442</u>     | <u>28,675</u>              | <u>221</u>                    | <u>-</u>                 | <u>41,338</u>    |
| <b>Carrying Amount</b>                                    |                   |                            |                               |                          |                  |
| <b>Balance, January 1, 2010</b>                           | \$552,970         | \$73,738                   | \$247                         | \$4,589                  | \$631,544        |
| <b>Balance, December 31, 2010</b>                         | <u>\$552,155</u>  | <u>\$70,767</u>            | <u>\$160</u>                  | <u>\$5,710</u>           | <u>\$628,792</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 depreciated over their estimated useful life.

## 8. MINERAL PROPERTIES

|   | San Rafael      |                 | Other            |                 |                | Total            |
|---|-----------------|-----------------|------------------|-----------------|----------------|------------------|
|   | El Placer       | Increible 6     | El Callao        | Valle Hondo     | Properties     |                  |
| <b>Balance, January 1, 2010</b>                                     | \$34,269        | \$49,540        | \$137,382        | \$17,304        | \$9,004        | \$247,499        |
| Exploration and development costs                                   | 15,946          | 2,389           | -                | 62              | 259            | 18,656           |
| <b>Balance, December 31, 2010</b>                                   | 50,215          | 51,929          | 137,382          | 17,366          | 9,263          | 266,155          |
| Exploration and development costs                                   | 21,663          | 2,494           | -                | 251             | 110            | 24,518           |
| Incidental proceeds from sale of pre-commercial gold production (a) | (5,539)         | -               | -                | -               | -              | (5,539)          |
| Disposition   | -               | -               | -                | -               | (60)           | (60)             |
| <b>Balance, September 30, 2011</b>                                  | <u>\$66,339</u> | <u>\$54,423</u> | <u>\$137,382</u> | <u>\$17,617</u> | <u>\$9,313</u> | <u>\$285,074</u> |

a) During the nine months ended September 30, 2011, incidental proceeds of \$5,539 have been generated through the sale of gold mined from mineral properties in a pre-commercial production.

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

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|  | September 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|--|-----------------------|----------------------|--------------------|
| <b>Financial liabilities (a)</b>                                       |                       |                      |                    |
| Accounts payable   | \$28,117              | \$19,804             | \$7,555            |
| Accrued liabilities  | 43,780                | 29,692               | 15,241             |
| Accrual for termination benefits                                       | 9,682                 | 4,273                | 2,135              |
| Accrual for interest on convertible loan (Note 12)                     | 1,685                 | 175                  | 350                |
| Current portion of decommissioning and restoration provision (Note 11) | 1,041                 | 790                  | 202                |
| Due to related parties (Note 16)                                       | 389                   | 309                  | 96                 |
|  | <u>\$84,694</u>       | <u>\$55,043</u>      | <u>\$25,579</u>    |

a) No account payable or accrued liability identified as a non-financial liability.

## 10. GOLD SALE CONTRACT

### a. 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 13). 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 committed to deliver an additional eight hundred ounces of finished gold in July 2011. No gold has been delivered with respect to this contract. In February 2011, the Company paid the counterparty a portion of the amount owing in US dollars in lieu of delivery of seven hundred ounces (as permitted by the gold buyer) for a total of \$711. In relation to the Company's commitment to issuing 12,355 share purchase warrants (Note 13), the \$330 value associated with these committed share purchase warrants has been deducted from the \$6,973.

### b. Derivative Financial Liability

On September 20, 2011, as a result of the Decree and proposed nationalization of its Venezuelan gold mining assets by the government of Venezuela, a letter was written to the gold buyer indicating that management no longer expects to settle the obligation with the delivery of finished gold as stated in the agreement. Instead, the Company will settle the outstanding, undelivered ounces of finished gold owing with cash payments. Since the contract will be paid in cash in lieu of gold, it has been reclassified from deferred revenue to a derivative financial instrument. The settlement amount is at the fair value determined using the current international spot price of gold. As of September 30, 2011, 6,643 ounces of finished gold was still outstanding and was valued using the spot price of gold on September 30, 2011 of \$1,620 per ounce.

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>Balance, beginning of period/year</b>                                      | \$-                   | \$-                  |
| Value of undelivered gold ounces transferred from deferred revenue (Note 10a) | 5,932                 | -                    |
| Change in fair value  | 4,828                 | -                    |
| <b>Balance, end of period/year</b>  | <u>\$10,760</u>       | <u>\$-</u>           |

## 11. DECOMMISSIONING AND RESTORATION PROVISION

Decommissioning and restoration provisions are comprised of costs associated with environmental rehabilitation. These costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at the net present value of future cash expenditures upon reclamation and closure using the information currently available.

Costs associated with decommissioning and restoration are capitalized depending on the nature of the asset related to the obligation and depreciated over the life of the asset.

The decommissioning and restoration provision relates to reclamation and closure costs of the Company's operating Choco Mine and Isidora Mine, as well as to some of the exploration and development activities undertaken on the Company's mineral properties. The undiscounted estimated inflation-adjusted future cash flows required to settle the environmental rehabilitation obligation incurred to September 30, 2011 and December 31, 2010 are approximately \$64,667 (January 1, 2010: \$37,273), which are expected to be expended between 2011 and 2024.

As at September 30, 2011 and December 31, 2010, these cash flows have been discounted using a pre-tax rate reflective of the time value of money, inflation, and the risks specific to the liability of 45.1% (January 1, 2010: 44.4%), which includes an embedded inflation rate of approximately 27.0% (January 1, 2010: 27.0%), reflective of inflation in Venezuela, the country of the currency in which the obligation will be ultimately settled.

In view of the uncertainties concerning decommissioning and restoration, the ultimate cost of reclamation, remediation and closure activities could differ materially from the estimated amount recorded. The estimate of the Company's decommissioning and restoration provision 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 provision 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 provision and a corresponding increase or decrease to the mineral property and/or property, plant and equipment balance(s).

|   | <b>September 30,<br/>2011</b> | December 31,<br>2010 |
|---|-------------------------------|----------------------|
| <b>Balance, beginning of period/year</b>  | \$5,281                       | \$2,623              |
| Change in estimate of future costs  | -                             | 921                  |
| Accretion expense   | 1,709                         | 1,341                |
| Settled in period   | -                             | (169)                |
| Incurred in period  | -                             | 565                  |
| <b>Balance, end of period/year</b>  | <b>6,990</b>                  | <b>5,281</b>         |
| Less: current portion of decommissioning and restoration provision, included in accounts payable and accrued liabilities (Note 9) | 1,041                         | 790                  |
| <b>Non-current decommissioning and restoration provision</b>  | <b>\$5,949</b>                | <b>\$4,491</b>       |

As at January 1, 2010, the current portion and non-current portion of decommissioning and restoration provision is \$202 and \$2,421, respectively.

## **12. 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 and the San Rafael El Placer and Incredible 6 mineral properties (Note 8) but excluded the Isidora Mine. 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 Lenders' conversion option to shares, which have been separately presented on the consolidated statement of financial position. 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 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 profit or loss 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 deficit in the consolidated statement of financial position. 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 13) 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 the \$873 fair value of the 30,000 warrants issued (Note 13) and other costs of \$842. As a result of the restructuring, the carrying value of the equity component of the 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 the equity component of the convertible loan.

## 12. CONVERTIBLE LOAN (Continued)

As at June 7, 2011, the conversion option of the Loan expired, and the related balance of \$1,223, as carried as an equity component of the convertible loan was extinguished, with a corresponding increase to contributed surplus.

On June 10, 2011, the Company was in default of the Loan, as the required repayments of \$30,000 of principal and \$750 of accrued interest were not made on that date. These defaulted, scheduled repayments, in addition to interest accrued on the total balance owing, at the previously contracted rate of 11% per annum, were still outstanding as at September 30, 2011.

|  | <b>September<br/>30, 2011</b> | December 31,<br>2010 |
|--|-------------------------------|----------------------|
| <b>Equity component, beginning of period/year</b>    | \$1,223                       | \$ 4,733             |
| Extinguishment of conversion option to shares        | (1,223)                       | (4,733)              |
| Modification of conversion option to shares          | -                             | 1,223                |
| <b>Equity component, end of period/year</b>          | <u>\$-</u>                    | <u>\$1,223</u>       |
| <b>Liability component, beginning of period/year</b> | \$ 28,631                     | \$ 57,935            |
| Accretion of interest                                | 1,369                         | 3,634                |
| Loan repayments                                      | -                             | (30,000)             |
| Decrease in fair value at the time of restructuring  | -                             | (1,223)              |
| Loan restructuring costs                             | -                             | (1,715)              |
| <b>Liability component, end of period/year</b>       | <u>\$30,000</u>               | <u>\$ 28,631</u>     |

## 13. DERIVATIVE FINANCIAL LIABILITIES

The share purchase warrants issued with foreign currency exercise prices (all being denominated in the Canadian dollar (C\$)) as at September 30, 2011, December 31, 2010 and January 1, 2010 were as follows:

|   | <b>Warrants</b> | <b>Weighted Average<br/>Exercise Price<br/>(C\$)</b> | <b>Financial<br/>Liability</b> |
|---|-----------------|--|--------------------------------|
| <b>Balance, January 1, 2010</b>           | 102,967         | 4.11   | \$324                          |
| Warrants issued                           | 30,000          | 0.40   | 1,332                          |
| Warrants committed, but not yet issued    | 12,355          | 0.40   | 2,817                          |
| Change in fair value                      | -               | -  | (472)                          |
| <b>Balance, December 31, 2010</b>         | 145,322         | 3.03   | 4,001                          |
| Reversal of warrants previously committed | (12,355)        | (0.40)   | (2,817)                        |
| Warrants issued                           | 12,355          | 0.40   | 2,817                          |
| Change in fair value                      | -               | -  | (3,986)                        |
| <b>Balance, September 30, 2011</b>        | <u>145,322</u>  | <u>3.03</u>  | <u>\$15</u>                    |

On August 13, 2010, the Company issued 30,000 share purchase warrants to the Lenders as a result of restructuring the Loan (Note 12). On March 17, 2011, the Company issued 12,355 share purchase warrants to a gold buyer (Note 10). These share purchase warrants were committed to the gold buyer during the year ended December 31, 2010, as an inducement related to an advance for the delivery of finished gold ounces (Note 10).

The fair value of the issued share purchase warrants with foreign currency exercise prices was estimated on the date of grant using the Black-Scholes Option-Pricing model with the following weighted average assumptions:

### 13. DERIVATIVE FINANCIAL LIABILITIES (Continued)

|   | 2011 | 2010          |
|---|------|---------------|
| <b>Assumptions</b>  |      |               |
| Dividend yield  | -    | 0%            |
| Annualized volatility   | -    | 57%           |
| Risk-free interest rate                                       | -    | 1.81% - 1.82% |
| Expected life (years)   | -    | 1.4 - 1.6     |
| <b>Weighted average fair value per share purchase warrant</b> | -    | \$0.03        |

The following share purchase warrants with foreign currency exercise prices were outstanding as at September 30, 2011:

| Number of Share Purchase Warrants<br>Outstanding and Exercisable | Exercise Price<br>(C\$) | Expiry Date       |
|--|-------------------------|-------------------|
| 12,355   | 0.40                    | November 10, 2011 |
| 30,000   | 0.40                    | December 10, 2011 |
| 9,217  | 5.25                    | March 4, 2012     |
| 93,750   | 4.00                    | November 30, 2012 |
| <u>145,322</u>   |                         |                   |

### 14. EQUITY

#### a. Authorized Share Capital of the Company

Unlimited number of common shares without par value.

#### b. Issued Capital

|   | Number of<br>Shares | Amount           |
|---|---------------------|------------------|
| <b>Balance, January 1, 2010</b>                     | 529,846             | \$736,087        |
| Shares issued pursuant to exercise of share options | 175                 | 34               |
| Fair value of share options exercised               | -                   | 117              |
| <b>Balance, December 31, 2010</b>                   | 530,021             | 736,238          |
| Shares issued pursuant to exercise of share options | 100                 | 20               |
| Fair value of share options exercised               | -                   | 25               |
| <b>Balance, September 30, 2011</b>                  | <u>530,121</u>      | <u>\$736,283</u> |

#### c. Share-based Payments

The Company has a share 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. Amount of options, vesting terms, conditions and exercise price are determined by the board of directors at the time of grant.

## 14. EQUITY (Continued)

The following share options were outstanding and exercisable at September 30, 2011:

| Exercise Prices   | Options Outstanding           |                                 |   | Options Exercisable                 |                                 |
|-------------------|-------------------------------|---------------------------------|---|-------------------------------------|---------------------------------|
|                   | Number of Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Options Outstanding and Exercisable | Weighted Average Exercise Price |
| C\$0.20 – C\$0.27 | 9,629                         | C\$0.20                         | 7.61  | 9,505                               | C\$0.20                         |
| C\$0.60           | 15,230                        | C\$0.60                         | 7.33  | 15,230                              | C\$0.60                         |
| C\$1.31 – C\$1.55 | 15,345                        | C\$1.31                         | 6.63  | 15,345                              | C\$1.31                         |
| C\$2.12 – C\$2.30 | 4,950                         | C\$2.22                         | 5.97  | 4,950                               | C\$2.22                         |
| \$3.00            | 1,600                         | \$3.00                          | 4.81  | 1,600                               | \$3.00                          |
|                   | <u>46,754</u>                 | <u>\$0.96</u>                   | <u>6.93</u>   | <u>46,630</u>                       | <u>\$0.97</u>                   |

Share option transactions are summarized as follows:

|  | Number of Options | Weighted Average Exercise Price |
|--|-------------------|---------------------------------|
| <b>Outstanding, January 1, 2010</b>    | 51,146            | \$1.32                          |
| Issued                                 | 5,527             | 0.19                            |
| Forfeited                              | (6,966)           | 2.28                            |
| Exercised                              | (175)             | 0.20                            |
| <b>Outstanding, December 31, 2010</b>  | 49,532            | 1.05                            |
| Forfeited                              | (2,678)           | 1.82                            |
| Exercised                              | (100)             | 0.20                            |
| <b>Outstanding, September 30, 2011</b> | <u>46,754</u>     | <u>\$0.96</u>                   |

The weighted average share price for share options exercised during the nine months ended September 30, 2011 was C\$0.20.

The fair value of the share options granted was estimated on the date of grant using the Black-Scholes Option-Pricing model with the following weighted average assumptions:

| Assumptions                                   | 2011 | 2010          |
|---|------|---------------|
| Dividend yield                                | -    | 0%            |
| Annualized volatility                         | -    | 55% - 59%     |
| Risk-free interest rate                       | -    | 1.31% - 2.87% |
| Expected life (years)                         | -    | 2 - 10        |
| <b>Weighted average fair value per option</b> | -    | \$0.13        |

No share options have been granted during the three and nine months ended September 30, 2011. During the year ended December 31, 2010, the Company amended the exercise price of 4,844 share options with original exercise prices ranging from C\$0.60 - \$3.00 to C\$0.20.

## 14. EQUITY (Continued)

### d. Share Purchase Warrants Issued

The share purchase warrants as at September 30, 2011 and December 31, 2010 were as follows:

|   | September 30, 2011 |                                 | December 31, 2010  |                                 |
|---|--------------------|---------------------------------|--------------------|---------------------------------|
|   | Number of warrants | Weighted Average Exercise Price | Number of warrants | Weighted Average Exercise Price |
| <b>Balance outstanding, beginning and end of period</b> | 5,833              | \$3.35                          | 5,833              | \$3.35                          |

As at September 30, 2011, December 31, 2010 and January 1, 2010, there is no value associated to these share purchase warrants.

The following share purchase warrants, including share purchase warrants denominated in a foreign currency (Note 13), were outstanding as at September 30, 2011:

| Number of Share Purchase Warrants Outstanding and Exercisable | Exercise Price | Expiry Date       |
|---|----------------|-------------------|
| 5,833   | \$3.35         | November 7, 2011  |
| 12,355  | C\$0.40        | November 10, 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>151,155</u>  |                |                   |

## 15. MINING OPERATING EXPENSES

|                                | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                 |
|--------------------------------|----------------------------------|-----------------|---------------------------------|-----------------|
|                                | 2011                             | 2010            | 2011                            | 2010            |
| Raw materials                  | \$2,846                          | \$1,857         | \$7,785                         | \$6,449         |
| Salaries and employee benefits | 11,044                           | 7,356           | 32,340                          | 21,211          |
| Administrative expenses        | 3,530                            | 4,194           | 9,477                           | 9,947           |
| Royalties and production taxes | 2,760                            | 1,627           | 6,611                           | 4,880           |
| Rental of machinery            | 6,020                            | 3,959           | 18,500                          | 14,346          |
| Consulting fees                | 1,089                            | 1,315           | 3,491                           | 3,127           |
| Tools and spare parts          | 2,319                            | 1,277           | 5,553                           | 3,654           |
| Change in inventories          | (2,152)                          | 14,009          | 1,150                           | 33,209          |
| Impairment of inventories      | (1,966)                          | -               | 3,396                           | -               |
| Other                          | (698)                            | (1,401)         | (1,269)                         | (5,761)         |
|                                | <u>\$24,792</u>                  | <u>\$34,193</u> | <u>\$87,034</u>                 | <u>\$91,062</u> |

## 16. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company (including its subsidiaries) and other related parties are disclosed below.

The nature of transactions undertaken and the relationships with related parties of the Company are as follows:

|           | <b>Relationship with the Company</b>   | <b>Nature of Transactions</b>   |
|-----------|--|---|
| Company A | An officer/director of the Company and a director of the Company are also an officer and director, respectively, of Company A. | Machinery and facilities rental and provision of general mining-related services. |
| Company B | A director of the Company is also a partner of Company B.  | Provision of legal services.  |

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses and transactions with related parties have been measured at the price agreed between the parties, which is determined on a cost recovery basis.

|   | Notes    | <b>Three Months</b>        |              | <b>Nine Months</b>         |              |
|---|----------|----------------------------|--------------|----------------------------|--------------|
|   |          | <b>Ended September 30,</b> |              | <b>Ended September 30,</b> |              |
|   |          | <b>2011</b>                | 2010         | <b>2011</b>                | 2010         |
| Machinery rental and provision of general mining-related services | (a)      | \$68                       | \$54         | \$193                      | \$162        |
| Facilities rental   | (b)      | 27                         | 27           | 82                         | 82           |
| Provision of legal services                                       | (c), (d) | 54                         | 26           | 291                        | 170          |
|   |          | <u>\$149</u>               | <u>\$107</u> | <u>\$566</u>               | <u>\$414</u> |

- a) Included in mining operating expenses for the three months and nine months ended September 30, 2011 is \$68 and \$175, respectively (three months and nine months ended September 30, 2010: \$nil and \$nil, respectively), related to rental of machinery from, and the provision of general mining-related services by, Company A. Included in amounts capitalized as mineral properties for the three months and nine months ended September 30, 2011 is \$nil and \$18, respectively (three months and nine months ended September 30, 2010: \$54 and \$162, respectively), related to rental of machinery from, and the provision of general mining-related services by, Company A.
- b) Included in general and administrative expenses for the three months and nine months ended September 30, 2011 is \$27 and \$82, respectively (three months and nine months ended September 30, 2010: \$27 and 82, respectively), related to the rental of the Caracas office from Company A.
- c) Included in general and administrative expenses for the three months and nine months ended September 30, 2011 are professional fees paid to Company B for \$54 and \$291, respectively (three months and nine months ended September 30, 2010: \$nil and \$nil, respectively), in relation to the fees associated with expanding production facilities. In relation to other legal matters, included in general and administrative expenses for the nine months ended September 30, 2011 is a credit of \$22, which brings the total amount charged to general and administrative expenses for the nine months ended September 30, 2011 to \$nil (three months and nine months ended September 30, 2010: \$4 and \$90 respectively).
- d) Included in amounts recorded against the convertible loan (Note 12) for the three months and nine months ended September 30, 2011 are professional fees paid to Company B for \$nil and \$nil, respectively (three months and nine months ended September 30, 2010: \$22 and \$80, respectively), related to legal services rendered for the Loan.

## **16. RELATED PARTY TRANSACTIONS (Continued)**

Included in receivables (Note 5) are amounts owed from Company A of \$nil (December 31, 2010: \$283; January 1, 2010: \$204). These amounts are unsecured, non-interest bearing and have no set terms of repayment.

Included in prepaids are amounts due to Company A for \$607 (December 31, 2010: \$nil; January 31, 2010: \$nil).

Included in accounts payable and accrued liabilities (Note 9) are amounts due to Company A and B for \$389 (December 31, 2010: \$309; January 1, 2010: \$96). These amounts are unsecured, due on demand and non-interest bearing.

## **17. CAPITAL MANAGEMENT DISCLOSURES**

The Company defines the capital that it manages as its equity, excluding non-controlling interests, and convertible loan. The Company's objectives when managing capital are to:

- Provide an adequate return to shareholders;
- Provide adequate and efficient funding for operations;
- Support any expansion plans;
- Continue the exploration and development of its mineral properties; and
- 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 nine months ended September 30, 2011.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

|  | <b>Nine Months</b>         |                 |
|--|----------------------------|-----------------|
|  | <b>Ended September 30,</b> |                 |
|  | <b>2011</b>                | <b>2010</b>     |
| <b>CHANGES IN NON-CASH WORKING CAPITAL ITEMS</b>   |                            |                 |
| Receivables  | (\$2,463)                  | (\$8,792)       |
| Inventories  | (4,618)                    | 13,873          |
| Prepaid expenses and deposits  | (2,635)                    | (5,604)         |
| Accounts payable and accrued liabilities   | 24,666                     | 20,348          |
| Deferred revenue   | (6,643)                    | 6,603           |
| Derivative financial liability   | 5,932                      | -               |
| Income taxes payable   | (210)                      | 876             |
|  | <b>\$14,029</b>            | <b>\$27,304</b> |
| <b>CHANGES IN NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                            |                            |                 |
| Accounts payable and accrued liabilities – Expenditures on mineral properties            | (\$3,941)                  | (\$179)         |
| Accounts payable and accrued liabilities – Expenditures on property, plant and equipment | \$537                      | \$1,341         |
| Depreciation capitalized – Mineral properties  | \$527                      | \$869           |
| Warrants committed in Loan restructuring (Note 12)                                       | \$-                        | \$873           |
| <b>OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS</b>                         |                            |                 |
| Interest paid  | \$750                      | \$3,793         |
| Taxes paid   | \$-                        | \$-             |

## 19. SEGMENTED INFORMATION

The Company's reportable operating segments are the operating Choco Mine and Isidora Mine, the aggregate of mineral properties, which are comprised of exploration and evaluation assets as well as development stage properties, and Corporate. All operating segment assets, liabilities, revenue and expenses relate to Venezuela except for Corporate operating segment assets and expenses, which relate to Canada. The following amounts are presented net of intercompany transactions where applicable.

### Three months ended September 30, 2011

|   | Choco Mine     | Isidora Mine | Exploration,<br>Evaluation and<br>Development | Corporate  | Total          |
|---|----------------|--------------|---|------------|----------------|
| Revenues  | \$24,572       | \$5,462      | \$-   | \$-        | \$30,034       |
| Mining operating expenses                               | (17,229)       | (7,563)      | -   | -          | (24,792)       |
| Depreciation and depletion                              | (2,705)        | (306)        | -   | -          | (3,011)        |
| Share-based compensation expense                        | -              | -            | -   | (2)        | (2)            |
| General and administrative                              | (3)            | -            | (305)   | (1,400)    | (1,708)        |
| Foreign exchange (loss) gain                            | 1,168          | 270          | 29  | 136        | 1,603          |
| Interest on convertible loan                            | -              | -            | -   | (767)      | (767)          |
| Gain on revaluation of derivative financial liabilities | -              | -            | -   | 23         | 23             |
| Loss on revaluation of gold sale contract               | -              | -            | -   | (4,828)    | (4,828)        |
| Impairment of property, plant and equipment             | -              | (402)        | -   | -          | (402)          |
| Other income (expenses)                                 | 224            | -            | (550)   | -          | (326)          |
| Current tax recovery                                    | 206            | -            | -   | -          | 206            |
| Deferred tax recovery                                   | 1,708          | 594          | -   | -          | 2,302          |
| (Loss) profit from operations                           | \$7,941        | (\$1,945)    | (\$826)                                       | (\$6,838)  | (\$1,668)      |
| <b>Capital asset expenditures</b>                       | <b>\$1,297</b> | <b>\$507</b> | <b>\$4,708</b>                                | <b>\$-</b> | <b>\$6,512</b> |

Capital asset expenditures are net of incidental proceeds from sale of pre-commercial gold production (Note 7 and 8).

## 19. SEGMENTED INFORMATION (Continued)

Three months ended September 30, 2010

|   | Choco Mine      | Isidora Mine     | Exploration,<br>Evaluation and<br>Development | Corporate        | Total          |
|---|-----------------|------------------|---|------------------|----------------|
| Revenues  | \$32,868        | \$9,820          | \$-   | \$-              | \$42,688       |
| Mining operating expenses                               | (23,575)        | (10,618)         | -   | -                | (34,193)       |
| Depreciation and depletion                              | (4,047)         | (162)            | -   | -                | (4,209)        |
| Share-based compensation expense                        | -               | -                | -   | (1,019)          | (1,019)        |
| General and administrative                              | -               | -                | (686)   | (2,013)          | (2,699)        |
| Foreign exchange gain (loss)                            | 9,455           | (451)            | 1,257   | (25)             | 10,236         |
| Interest on convertible loan                            | -               | -                | -   | (1,477)          | (1,477)        |
| Loss on revaluation of derivative financial liabilities | -               | -                | -   | (554)            | (554)          |
| Impairment of property, plant and equipment             | -               | (288)            | -   | -                | (288)          |
| Other income (expenses)                                 | 2               | -                | (159)   | (7)              | (164)          |
| Current tax expense                                     | -               | (957)            | -   | -                | (957)          |
| Deferred tax recovery                                   | 5,433           | (6,418)          | -   | -                | (985)          |
| Profit (loss) from operations                           | <u>\$20,136</u> | <u>(\$9,074)</u> | <u>\$412</u>                                  | <u>(\$5,095)</u> | <u>\$6,379</u> |
| <b>Capital asset expenditures</b>                       | <u>\$2,436</u>  | <u>\$286</u>     | <u>\$2,831</u>                                | <u>\$-</u>       | <u>\$5,553</u> |

## 19. SEGMENTED INFORMATION (Continued)

Nine months ended September 30, 2011

|   | Choco Mine     | Isidora Mine   | Exploration,<br>Evaluation and<br>Development | Corporate  | Total           |
|---|----------------|----------------|---|------------|-----------------|
| Revenues  | \$69,891       | \$15,205       | \$-   | \$-        | \$85,096        |
| Mining operating expenses                               | (67,569)       | (19,465)       | -   | -          | (87,034)        |
| Depreciation and depletion                              | (9,236)        | (394)          | -   | -          | (9,630)         |
| Share-based compensation expense                        | -              | -              | -   | (15)       | (15)            |
| General and administrative                              | (10)           | -              | (745)   | (4,500)    | (5,255)         |
| Foreign exchange (loss) gain                            | (389)          | (391)          | (266)   | (32)       | (1,078)         |
| Interest on convertible loan                            | -              | -              | -   | (3,629)    | (3,629)         |
| Gain on revaluation of derivative financial liabilities | -              | -              | -   | 4,088      | 4,088           |
| Loss on revaluation of gold sale contract               | -              | -              | -   | (4,828)    | (4,828)         |
| Impairment of property, plant and equipment             | -              | (2,308)        | -   | -          | (2,308)         |
| Other income (expenses)                                 | 1,095          | 436            | (1,162)                                       | -          | 369             |
| Current tax recovery                                    | 206            | -              | -   | -          | 206             |
| Deferred tax recovery                                   | 10,493         | 609            | -   | -          | 11,102          |
| (Loss) profit from operations                           | \$4,481        | (\$6,308)      | (\$2,173)                                     | (\$8,916)  | (\$12,916)      |
| <b>Capital asset expenditures</b>                       | <b>\$3,872</b> | <b>\$1,214</b> | <b>\$21,010</b>                               | <b>\$-</b> | <b>\$26,096</b> |

Capital asset expenditures are net of incidental proceeds from sale of pre-commercial gold production (Note 7 and 8).

## 19. SEGMENTED INFORMATION (Continued)

Nine months ended September 30, 2010

|   | Choco Mine | Isidora Mine | Exploration,<br>Evaluation and<br>Development | Corporate  | Total     |
|---|------------|--------------|---|------------|-----------|
| Revenues  | \$92,922   | \$17,253     | \$-   | \$-        | \$110,175 |
| Mining operating expenses                               | (74,229)   | (16,833)     | -   | -          | (91,062)  |
| Depreciation and depletion                              | (14,747)   | (938)        | -   | -          | (15,685)  |
| Share-based compensation expense                        | -          | -            | -   | (1,358)    | (1,358)   |
| General and administrative                              | -          | -            | (1,612)                                       | (6,314)    | (7,926)   |
| Foreign exchange (loss) gain                            | 20,941     | (2,635)      | (16,272)                                      | 235        | 2,269     |
| Interest on convertible loan                            | -          | -            | -   | (6,511)    | (6,511)   |
| Gain on revaluation of derivative financial liabilities | -          | -            | -   | 766        | 766       |
| Impairment of property, plant and equipment             | -          | (1,141)      | -   | -          | (1,141)   |
| Other income (expenses)                                 | (1,790)    | 140          | (347)   | (7)        | (2,004)   |
| Current tax expense                                     | -          | (957)        | -   | -          | (957)     |
| Deferred tax recovery                                   | 30,319     | (6,013)      | -   | -          | 24,306    |
| (Loss) profit from operations                           | \$53,416   | (\$11,124)   | (\$18,231)                                    | (\$13,189) | \$10,872  |
| <b>Capital asset expenditures</b>                       | \$3,615    | \$342        | \$8,604                                       | \$-        | \$12,561  |

## 19. SEGMENTED INFORMATION (Continued)

During the three months and nine months ended September 30, 2011 and September 30, 2010, 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:

|            | Three Months<br>Ended September 30, |              | Nine Months<br>Ended September 30, |              |
|------------|-------------------------------------|--------------|------------------------------------|--------------|
|            | 2011<br>(\$)                        | 2010<br>(\$) | 2011<br>(\$)                       | 2010<br>(\$) |
| Customer A | 17,975                              | 41,709       | 47,244                             | 91,918       |
| Customer B | 12,059                              | -            | 37,852                             | -            |
| Customer C | -                                   | 979          | -                                  | 16,536       |

The Company's geographic segment information is as follows:

|   | September 30, 2011 |                 |   |                 |                  |
|---|--------------------|-----------------|---|-----------------|------------------|
|   | Choco Mine         | Isidora Mine    | Exploration,<br>Evaluation and<br>Development | Corporate       | Total            |
| <b>Assets</b>                             |                    |                 |   |                 |                  |
| Current assets                            | \$48,427           | \$14,541        | \$8,245                                       | \$1,033         | \$72,246         |
| Receivables non-current                   | 693                | -               | 4,971   | -               | 5,664            |
| Property, plant and equipment             | 619,359            | -               | 3,787   | 113             | 623,259          |
| Mineral properties                        | -                  | -               | 285,074                                       | -               | 285,074          |
| Deferred tax assets                       | -                  | 3,817           | -   | -               | 3,817            |
|   | <u>\$668,479</u>   | <u>\$18,358</u> | <u>\$302,077</u>                              | <u>\$1,146</u>  | <u>\$990,060</u> |
| <b>Liabilities</b>                        |                    |                 |   |                 |                  |
| Current liabilities                       | \$83,557           | \$14,059        | \$14,000                                      | \$21,633        | \$133,249        |
| Accrual for termination benefits          | -                  | 4,029           | -   | -               | 4,029            |
| Derivative financial liabilities          | -                  | -               | -   | 15              | 15               |
| Decommissioning and restoration provision | 2,749              | 1,911           | 1,289   | -               | 5,949            |
| Deferred tax liabilities                  | 198,737            | -               | -   | -               | 198,737          |
|   | <u>\$285,043</u>   | <u>\$19,999</u> | <u>\$15,289</u>                               | <u>\$21,648</u> | <u>\$341,979</u> |

## 19. SEGMENTED INFORMATION (Continued)

|   | December 31, 2010 |                 |   |                 |                  |
|---|-------------------|-----------------|---|-----------------|------------------|
|   | Choco Mine        | Isidora Mine    | Exploration,<br>Evaluation and<br>Development | Corporate       | Total            |
| <b>Assets</b>                             |                   |                 |   |                 |                  |
| Current assets                            | \$45,111          | \$14,613        | \$7,735                                       | \$292           | \$67,751         |
| Receivables non-current                   | 11,103            | -               | 3,488   | -               | 14,591           |
| Property, plant and equipment             | 625,060           | -               | 3,572   | 160             | 628,792          |
| Mineral properties                        | -                 | -               | 266,155                                       | -               | 266,155          |
| Deferred tax assets                       | -                 | 3,208           | -   | -               | 3,208            |
|   | <u>\$681,274</u>  | <u>\$17,821</u> | <u>\$280,950</u>                              | <u>\$452</u>    | <u>\$980,497</u> |
| <b>Liabilities</b>                        |                   |                 |   |                 |                  |
| Current liabilities                       | \$69,323          | \$5,949         | \$5,770                                       | \$17,280        | \$98,322         |
| Accrual for termination benefits          | -                 | 3,492           | -   | -               | 3,492            |
| Derivative financial liabilities          | -                 | -               | -   | 4,001           | 4,001            |
| Decommissioning and restoration provision | 2,049             | 1,464           | 978   | -               | 4,491            |
| Deferred tax liabilities                  | 209,229           | -               | -   | -               | 209,229          |
|   | <u>\$280,601</u>  | <u>\$10,905</u> | <u>\$6,748</u>                                | <u>\$21,281</u> | <u>\$319,535</u> |
|   | January 1, 2010   |                 |   |                 |                  |
|   | Choco Mine        | Isidora Mine    | Exploration,<br>Evaluation and<br>Development | Corporate       | Total            |
| <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             | 627,112           | -               | 4,184   | 248             | 631,544          |
| Mineral properties                        | -                 | -               | 247,499                                       | -               | 247,499          |
|   | <u>\$686,123</u>  | <u>\$11,616</u> | <u>\$259,100</u>                              | <u>\$13,901</u> | <u>\$970,740</u> |
| <b>Liabilities</b>                        |                   |                 |   |                 |                  |
| Current liabilities                       | \$81,331          | \$5,681         | \$2,324                                       | \$1,321         | \$90,657         |
| Accrual for termination benefits          | -                 | 915             | -   | -               | 915              |
| Derivative financial liabilities          | -                 | -               | -   | 324             | 324              |
| Decommissioning and restoration provision | 808               | 834             | 779   | -               | 2,421            |
| Deferred tax liabilities                  | 238,887           | -               | -   | -               | 238,887          |
|   | <u>\$321,026</u>  | <u>\$7,430</u>  | <u>\$3,103</u>                                | <u>\$1,645</u>  | <u>\$333,204</u> |

## 20. 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.

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

|                               | <b>September 30,<br/>2011</b> | December 31,<br>2010 | January 1,<br>2010 |
|-------------------------------|-------------------------------|----------------------|--------------------|
| <b>Assets</b>                 |                               |                      |                    |
| Current assets                | \$14,541                      | \$14,613             | \$11,616           |
| Property, plant and equipment | -                             | -                    | -                  |
| Deferred tax assets           | 3,817                         | 3,208                | -                  |
| Mineral properties            | 184                           | 184                  | 184                |
|                               | <u>\$18,542</u>               | <u>\$18,005</u>      | <u>\$11,800</u>    |
| <b>Liabilities</b>            |                               |                      |                    |
| Current liabilities           | \$14,059                      | \$5,949              | \$5,681            |
| Other non-current liabilities | 5,940                         | 4,956                | 1,749              |
|                               | <u>\$19,999</u>               | <u>\$10,905</u>      | <u>\$7,430</u>     |

|                                    | <b>Three Months<br/>Ended September 30,<br/>2011</b> |                  | <b>Nine Months<br/>Ended September 30,<br/>2011</b> |                   |
|------------------------------------|--|------------------|---|-------------------|
|                                    | 2011   | 2010             | 2011  | 2010              |
| Revenues                           | \$5,462  | \$9,820          | \$15,205  | \$17,253          |
| Expenses                           | (7,677)  | (18,445)         | (21,122)  | (25,742)          |
| Foreign exchange gain              | 270  | (451)            | (391)   | (2,635)           |
| <b>Net profit</b>                  | <u>(\$1,945)</u>                                     | <u>(\$9,076)</u> | <u>(\$6,308)</u>                                    | <u>(\$11,124)</u> |
| <b>Cash inflows (outflows)</b>     |  |                  |   |                   |
| Operating activities               | \$702  | \$2,925          | \$1,078   | \$4,360           |
| Investing activities               | (507)  | (286)            | (1,214)   | (342)             |
| Financing activities               | -  | 1,751            | -   | 1,751             |
| <b>Increase (decrease) in cash</b> | <u>\$195</u>   | <u>\$4,390</u>   | <u>(\$136)</u>                                      | <u>\$5,769</u>    |

## **21. COMMITMENTS AND CONTINGENCIES**

### **a. Commitments**

As at September 30, 2011, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for explosives, construction of tailing dams, community relations, security, consulting and other services as follows:

|                     | <b>Total</b>    |
|---------------------|-----------------|
| 2011                | \$11,729        |
| 2012                | 25,523          |
| 2013                | 22,868          |
| 2014                | 7,362           |
| 2015 and thereafter | 28,628          |
|                     | <u>\$96,110</u> |

### **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 of 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 other expense in profit or loss.

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 interim financial statements for this claim. Based on the information currently available, an estimate of financial impact cannot be reasonably made.

#### *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 interim financial statements in connection with this matter since the outcome cannot be determined at this time. Also, based on the information currently available, an estimate of financial impact cannot be reasonably made.

## **21. COMMITMENTS AND CONTINGENCIES (Continued)**

### *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 statement of financial position, statement of comprehensive income (loss) or statement of cash flows. Based on the information currently available, estimates of financial impact cannot be reasonably made.

## **22. FINANCIAL INSTRUMENTS**

### **a. Financial Assets and Liabilities**

The Company's financial instruments consist of the following: cash, short-term investments, receivables, accounts payable and accrued liabilities, a convertible loan, and derivative financial liabilities in the form of share purchase warrants (as issued by the Company) with exercise prices denoted in a foreign currency (Note 13) and a gold delivery contract (Note 10).

The carrying amounts of cash, receivables and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. The share purchase warrants with exercise prices denoted in a foreign currency are carried at fair value on the consolidated financial statements. 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 September 30, 2011, except for the liability component of the convertible loan which has a fair value (as determined by the net present value method) of \$30,000 (December 31, 2010: \$28,121; January 1, 2010: \$58,403).

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

### **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 period 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 are described below.

## **22. FINANCIAL INSTRUMENTS (Continued)**

### *i. 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 also exposed to the credit risk of the CBV, as the Company's trade receivables are due from the CBV.

### *ii. 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 twelve months to identify financial requirements. These requirements are met through a combination of cash flows from operations, accessing capital markets, selling assets of the Company, and refinancing of the Loan, all or in part (Note 2). The table below provides a summary of the contractual obligations and payments related to financial liabilities included in the consolidated statement of financial position as at September 30, 2011. The amounts disclosed are the contractual undiscounted cash flows.

|  | <b>2011</b>      | <b>2012-2013</b> | <b>Total</b>     |
|--|------------------|------------------|------------------|
| Accounts payable and accrued liabilities | \$83,009         | \$-              | \$83,009         |
| Interest on convertible loan             | 1,685            | -                | 1,685            |
| Convertible loan                         | 30,000           | -                | 30,000           |
| Non-current labour indemnities           | -                | 4,029            | 4,029            |
|  | <u>\$114,694</u> | <u>\$-</u>       | <u>\$118,723</u> |

### *iii. Market Risk*

#### *(a) 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 September 30, 2011, a 1% increase in interest rates would decrease the fair value of convertible loan by \$nil and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$nil, as the convertible loan is in default and is due immediately. In addition, a 1% increase in interest rates would decrease the fair value of the share purchase warrants with foreign currency exercise prices by \$1 and a 1% decrease in interest rates would increase the fair value of the share purchase warrants with foreign currency exercise prices by \$1.

## 22. FINANCIAL INSTRUMENTS (Continued)

### (b) 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 profit or loss. 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 September 30, 2011, the Company holds cash of \$359 (December 31, 2010: \$3,626; January 1, 2010: \$667) in BsF.

The sensitivity of the Company's net profit (loss) from financial assets and liabilities due to changes in the exchange rate between the BsF, C\$, and the US dollar are summarized below:

|                   | <b>As at September 30, 2011</b>    |                                    |
|-------------------|------------------------------------|------------------------------------|
|                   | <b>25% Increase in the<br/>BsF</b> | <b>25% Decrease in the<br/>BsF</b> |
| Net (loss) profit | (\$15,652)                         | \$12,522                           |
|                   | <b>As at September 30, 2011</b>    |                                    |
|                   | <b>10% Increase in the<br/>C\$</b> | <b>10% Decrease in the<br/>C\$</b> |
| Net (loss) profit | (\$47)                             | \$43                               |

## 23. COMPARATIVE FIGURES

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

## 24. IFRS

The Company's IFRS accounting policies, as discussed in Note 3 of the March 31, 2011 interim financial statements, have been applied in preparing interim financial statements for the period ended September 30, 2011, the comparative information and the opening consolidated statement of financial position at the transition date.

The Company has applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*, in preparing these first IFRS interim financial statements. The effects of the transition to IFRS on equity and comprehensive income (loss) are presented in this section and are further explained in the notes that accompany the tables presented below. There were no significant impacts on the consolidated statements of cash flows as a result of the transition to IFRS.

## 24. IFRS (Continued)

### a. First-time Adoption of IFRS and Transitional Exemptions Applied

In accordance with IFRS 1, upon transition, certain standards are exempt from full retrospective application as at the transition date. In addition to the mandatory exemptions required, the Company has also elected to apply the following optional transitional exemptions:

- The Company has elected not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred prior to the transition date.
- The Company has elected not to apply IFRS 2, *Share-based Payments*, retrospectively to equity instruments that were granted and vested prior to the transition date.
- The Company has elected to eliminate all existing cumulative translation differences as at the transition date into deficit.
- The Company has elected not to apply IFRIC 7, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, retrospectively but alternatively has determined its decommissioning and restoration provision as at January 1, 2010 and was discounted to estimate the amount that would have been included in the cost of the related asset when the liability first arose.
- The Company has elected not to apply IAS 23, *Borrowing Costs*, retrospectively to borrowing costs incurred on qualifying assets for which the commencement date for capitalization, as defined by IAS 23, is prior to the transition date.

### b. Presentation Differences

Certain line item descriptions have changed as a result the transition from Canadian GAAP to IFRS. The following list reconciles these differences:

| IFRS                                      | Canadian GAAP                         |
|---|---------------------------------------|
| Decommissioning and restoration provision | Asset retirement obligations          |
| Deferred tax liabilities                  | Future income tax liabilities         |
| Issued capital                            | Share capital                         |
| Share-based compensation expense          | Stock-based compensation expense      |
| Current tax expense (recovery)            | Current income tax expense (recovery) |
| Deferred tax expense (recovery)           | Future income tax expense (recovery)  |

## 24. IFRS (Continued)

### c. Reconciliation of Canadian GAAP to IFRS

The September 30, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

|   | September 30, 2010 |                                    |                |
|---|--------------------|------------------------------------|----------------|
|   | Canadian<br>GAAP   | Effect of<br>Transition to<br>IFRS | IFRS           |
| <b>ASSETS</b>                             |                    |                                    |                |
| <b>Current Assets</b>                     |                    |                                    |                |
| Cash                                      | 7,548              | -                                  | 7,548          |
| Receivables                               | 16,077             | -                                  | 16,077         |
| Inventories                               | 31,951             | (352)                              | 31,599         |
| Prepaid expenses and deposits             | 13,692             | -                                  | 13,692         |
|   | <u>69,268</u>      | <u>(352)</u>                       | <u>68,916</u>  |
| Receivables                               | 12,274             | -                                  | 12,274         |
| Property, plant and equipment             | 669,277            | (40,522)                           | 628,755        |
| Mineral properties                        | 275,759            | (19,676)                           | 256,083        |
|   | <u>1,026,578</u>   | <u>(60,550)</u>                    | <u>966,028</u> |
| <b>LIABILITIES</b>                        |                    |                                    |                |
| <b>Current Liabilities</b>                |                    |                                    |                |
| Accounts payable and accrued liabilities  | 62,920             | (5,967)                            | 56,953         |
| Deferred revenue                          | 6,603              | -                                  | 6,603          |
| Income taxes payable                      | 4,395              | -                                  | 4,395          |
| Convertible loan                          | 27,901             | -                                  | 27,901         |
| Other current provisions                  | -                  | 6,014                              | 6,014          |
|   | <u>101,819</u>     | <u>47</u>                          | <u>101,866</u> |
| Derivative financial liabilities          | -                  | 811                                | 811            |
| Decommissioning and restoration provision | 4,914              | (507)                              | 4,407          |
| Deferred tax liabilities                  | 341,996            | (134,041)                          | 207,955        |
|   | <u>448,729</u>     | <u>(133,690)</u>                   | <u>315,039</u> |
| <b>EQUITY</b>                             |                    |                                    |                |
| Issued capital                            | 736,087            | -                                  | 736,087        |
| Equity component of convertible loan      | 2,366              | -                                  | 2,366          |
| Share purchase warrants issued            | 65,610             | (65,610)                           | -              |
| Share purchase warrants committed         | 330                | (330)                              | -              |
| Contributed surplus                       | 61,885             | -                                  | 61,885         |
| Accumulated other comprehensive loss      | (5,558)            | 5,558                              | -              |
| Deficit                                   | (284,095)          | 133,522                            | (150,573)      |
|   | <u>576,625</u>     | <u>73,140</u>                      | <u>649,765</u> |
| Non-controlling interests                 | 1,224              | -                                  | 1,224          |
|   | <u>577,849</u>     | <u>73,140</u>                      | <u>650,989</u> |
|   | <u>1,026,578</u>   | <u>(60,550)</u>                    | <u>966,028</u> |

## 24. IFRS (Continued)

The Canadian GAAP consolidated statement of comprehensive income (loss) for the three months ended September 30, 2010 has been reconciled to IFRS as follows:

|   | Three months ended September 30, 2010 |                                    |          |
|---|---------------------------------------|------------------------------------|----------|
|   | Canadian<br>GAAP                      | Effect of<br>Transition to<br>IFRS | IFRS     |
| <b>REVENUES FROM MINING OPERATIONS</b>                  | 42,688                                | -                                  | 42,688   |
| <b>COSTS OF MINING OPERATIONS</b>                       |                                       |                                    |          |
| Mining operating expenses                               | 34,109                                | 84                                 | 34,193   |
| Depreciation and depletion                              | 5,342                                 | (1,133)                            | 4,209    |
|   | 39,451                                | (1,049)                            | 38,402   |
| <b>(LOSS) PROFIT FROM MINING OPERATIONS</b>             | 3,237                                 | 1,049                              | 4,286    |
| Share-based compensation expense                        | 1,019                                 | -                                  | 1,019    |
| General and administrative                              | 2,699                                 | -                                  | 2,699    |
| Foreign exchange (gain) loss                            | (1,501)                               | (8,735)                            | (10,236) |
|   | 2,217                                 | (8,735)                            | (6,518)  |
| <b>(LOSS) PROFIT FROM OPERATIONS</b>                    | 1,020                                 | 9,784                              | 10,804   |
| Interest on convertible loan                            | 1,477                                 | -                                  | 1,477    |
| Gain on revaluation of derivative financial liabilities | -                                     | 554                                | 554      |
| Impairment of property, plant and equipment             | -                                     | 228                                | 288      |
| Other expenses (income)                                 | 145                                   | 19                                 | 164      |
|   | 1,622                                 | 861                                | 2,483    |
| <b>(LOSS) PROFIT BEFORE INCOME TAXES</b>                | (602)                                 | 8,923                              | 8,321    |
| Current income tax expense                              | 957                                   | -                                  | 957      |
| Deferred tax (recovery) expense                         | (8,991)                               | 9,976                              | 985      |
|   | (8,034)                               | 9,976                              | 1,942    |
| <b>(LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME</b>    | 7,432                                 | (1,053)                            | 6,379    |
| <b>Attributable to:</b>                                 |                                       |                                    |          |
| Non-controlling interests                               | 563                                   | -                                  | 563      |
| Equity shareholders of the Company                      | 6,869                                 | (1,053)                            | 5,816    |
|   | 7,432                                 | (1,053)                            | 6,379    |

## 24. IFRS (Continued)

The Canadian GAAP consolidated statement of comprehensive income (loss) for the nine months ended September 30, 2010 has been reconciled to IFRS as follows:

|   | <b>Nine months ended September 30, 2010</b> |   |             |
|---|---|---|-------------|
|   | <b>Canadian<br/>GAAP</b>                    | <b>Effect of<br/>Transition to<br/>IFRS</b> | <b>IFRS</b> |
| <b>REVENUES FROM MINING OPERATIONS</b>                  | 110,175                                     | -   | 110,175     |
| <b>COSTS OF MINING OPERATIONS</b>                       |   |   |             |
| Mining operating expenses                               | 91,017                                      | 45  | 91,062      |
| Depreciation and depletion                              | 17,717                                      | (2,032)                                     | 15,685      |
|   | 108,734                                     | (1,987)                                     | 106,747     |
| <b>(LOSS) PROFIT FROM MINING OPERATIONS</b>             | 1,441                                       | 1,987                                       | 3,428       |
| Share-based compensation expense                        | 1,358                                       | -   | 1,358       |
| General and administrative                              | 7,926                                       | -   | 7,926       |
| Foreign exchange (gain) loss                            | 103,569                                     | (105,838)                                   | (2,269)     |
|   | 112,853                                     | (105,838)                                   | 7,015       |
| <b>(LOSS) PROFIT FROM OPERATIONS</b>                    | (111,412)                                   | 107,825                                     | (3,587)     |
| Interest on convertible loan                            | 6,511                                       | -   | 6,511       |
| Gain on revaluation of derivative financial liabilities | -   | (766)                                       | (766)       |
| Impairment of property, plant and equipment             | -   | 1,141                                       | 1,141       |
| Other expenses (income)                                 | 2,166                                       | (162)                                       | 2,004       |
|   | 8,677                                       | 213   | 8,890       |
| <b>(LOSS) PROFIT BEFORE INCOME TAXES</b>                | (120,089)                                   | 107,612                                     | (12,477)    |
| Current income tax expense                              | 957   | -   | 957         |
| Deferred tax (recovery) expense                         | (20,205)                                    | (4,101)                                     | (24,306)    |
|   | (19,248)                                    | (4,101)                                     | (23,349)    |
| <b>(LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME</b>    | (100,841)                                   | 111,713                                     | 10,872      |
| <b>Attributable to:</b>                                 |   |   |             |
| Non-controlling interests                               | 1,016                                       | -   | 1,016       |
| Equity shareholders of the Company                      | (101,857)                                   | 111,713                                     | 9,856       |
|   | (100,841)                                   | 111,713                                     | 10,872      |

## **24. IFRS (Continued)**

### **d. Notes to the Reconciliations**

#### *i. Decommissioning and Restoration Provisions*

Under IFRS, the Company recognizes a provision based on the estimated amount required to settle any rehabilitation obligation at the time of decommissioning, discounted using a pre-tax discount rate that reflects the market's assessment of the time value of money and the risks specific to the liability at the reporting date. IFRS also requires changes in the liability to be recorded each period based on changes in discount rates in addition to changes in estimated timing or amount of future cash flows.

As a result of applying the IFRS 1 election related to decommissioning and restoration provision, the Company estimated the amount that would have been included in the cost of the decommissioning and restoration asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate that would have applied for that liability over the periods prior to the transition date. Accumulated depreciation and depletion on the cost at the transition date was determined using the UOP method based on the current estimate of the life of mine and the recoverable ounces to be mined from estimated proven and probable reserves.

Under Canadian GAAP, the Company recorded a decommissioning and restoration provision based on the estimated amount to be paid out at the time of decommissioning discounted to the current date using a credit adjusted risk free rate. Subsequent to a decommissioning and restoration provision being recorded, changes to the estimated liability, other than accretion, were recorded only as a result of changes in the timing or amount of future cash flows to settle the obligations.

During the three months ended September 30, 2010, the accounting under IFRS resulted in an increase of \$6 and \$83 in the current and non-current portions, respectively, of the decommissioning and restoration provision. The carrying value of the property, plant and equipment was decreased by \$4. Other adjustments included a \$14 decrease to the loss on foreign exchange, \$84 and \$4 increases to mining operating expense and depreciation and depletion, respectively, and a \$19 increase to finance expense (accretion), as recorded within other expenses.

During the nine months ended September 30, 2010, the accounting under IFRS resulted in an increase of \$94 and \$198 in the current and non-current portions, respectively, of the decommissioning and restoration provision. The carrying value of the property, plant and equipment was increased by \$847. Other adjustments included a \$990 reduction to the loss on foreign exchange, a \$40 decrease to mining operating expense, a \$4 increase to depreciation and depletion, a \$557 increase to impairment losses recognized on property, plant, and equipment, and a \$23 reduction to finance expense (accretion) and a \$140 gain recognized on revaluation of the provision, both of which were recognized through other expenses.

#### *ii. Share Purchase Warrants*

Under IFRS, the outstanding C\$ denominated share purchase warrants, related to the Goldfields and Mena acquisitions, a sale inducement to a customer, and costs associated with the restructuring of the Loan, are considered derivative financial instruments and have been reclassified as derivative financial liabilities, measured at fair value. On initial recognition, and at each subsequent reporting date, the derivative financial liabilities are adjusted to fair value and changes in fair value are recognized in profit or loss.

Under Canadian GAAP, the Company accounted for its C\$ denominated share purchase warrants as equity instruments measured at their historical cost.

## **24. IFRS (Continued)**

During the three months ended September 30, 2010, the accounting under IFRS required a total increase in share purchase warrants committed or issued, as presented under equity, by \$1,002, due to a correction for an adjustment made to reflect the value of actual approved warrants. There was an decrease of \$455 to the derivative financial liabilities, representing the net impact of the amounts reclassified from equity and the required fair value adjustments over the period, a foreign exchange gain of \$7 and a loss on revaluation of the derivative financial liabilities of \$554.

During the nine months ended September 30, 2010, the accounting under IFRS required a decrease in share purchase warrants committed and issued, as presented under equity, by \$1,203, an increase of \$487 to the derivative financial liabilities, representing the net impact of the amounts reclassified from equity and the required fair value adjustments over the period, and a foreign exchange loss increase of \$50 and a gain on revaluation of the derivative financial liabilities of \$767.

### *iii. Deferred Tax on Prior Asset Acquisitions*

Under IFRS, a deferred tax liability or asset is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination.

Under Canadian GAAP, when an asset is acquired other than in a business combination and the tax basis of that asset is less than or more than its cost, the cost or benefit of deferred taxes recognized at the time of acquisition should be added to or deducted from the cost of the asset and the deferred tax liability or asset recognized.

There was no impact to the Company during the three months ended September 30, 2010, as a result from the transition to this IFRS.

During the nine months ended September 30, 2010, the accounting required under IFRS resulted in decreases of \$5,184 to the deferred tax liabilities and foreign exchange loss.

### *iv. Impairment of Property, Plant and Equipment and Mineral Properties*

Under IFRS, IAS 36, *Impairment of Assets* requires an impairment charge to be recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value in use, is less than the carrying amount. The impairment charge under IFRS is the amount by which the carrying amount exceeds the recoverable amount. In addition, impairment losses for assets other than goodwill are required to be reversed where circumstances requiring the impairment charge have changed and support the reversal.

Under Canadian GAAP, whenever the estimated future cash flows on an undiscounted basis of a property are less than the carrying amount of the property, an impairment loss is measured and recorded based on fair values. Canadian GAAP does not permit the reversal of impairment losses recognized in prior periods under any circumstances.

Under Canadian GAAP, no impairment charge was recognized for property, plant and equipment or mineral properties prior to and as at December 31, 2010.

Under IFRS, an assessment was performed and it was determined that the Isidora CGU's carrying value was not recoverable and an impairment was recognized. No reversal of impairment has been recognized to date.

## **24. IFRS (Continued)**

During the three months ended September 30, 2010, costs of property, plant and equipment attributable to the Isidora CGU was decreased by \$288 (the additions for the period), with a corresponding increase to impairment loss of the same amount. Accumulated depreciation and depletion on property, plant and equipment was reduced by \$690, and depreciation and depletion was correspondingly decreased by \$1,469, whereas gold inventory increased by \$779. Deferred tax liabilities also increased by \$733, with a decrease in deferred tax recovery of \$609 and an increase in foreign exchange loss of \$125.

During the nine months ended September 30, 2010, costs of property, plant and equipment attributable to the Isidora CGU was decreased by \$584 (the additions for the period), with a corresponding increase to impairment loss of the same amount. Accumulated depreciation and depletion on property, plant and equipment was reduced by \$2,150, and depreciation and depletion and gold inventory were correspondingly decreased by \$1,797 and \$352, respectively. Deferred tax liabilities also decreased by \$3,725, with a decrease in deferred tax recovery of \$921 and a decrease in foreign exchange loss of \$4,646.

### *v. Componentization of Property, Plant and Equipment*

Under IFRS, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is required to be depreciated separately, unless its useful life and depreciation method is the same as those of another item, in which case they may be grouped.

Under Canadian GAAP, the cost of an item of property, plant and equipment made up of significant separable component parts is allocated to the component parts only when practicable and when estimates can be made of the lives of the separate components.

During the three months ended September 30, 2010, the accounting under IFRS resulted in increases in costs of property, plant and equipment and foreign exchange gains of \$53, as well as increases in accumulated depreciation and depletion and depreciation and depletion expense of \$333.

During the nine months ended September 30, 2010, the accounting under IFRS resulted in increases in costs of property, plant and equipment and foreign exchange gains of \$476, as well as decreases in accumulated depreciation and depletion and depreciation and depletion expense of \$230.

### *vi. Deferred Tax Liabilities*

Under IFRS, in the determination of temporary differences, the carrying value of non-monetary assets and liabilities are translated into the functional currency at the historical rate and compared to its tax value translated into the functional currency at the current rate. The resulting temporary difference (measured in the functional currency) is then multiplied by the appropriate tax rate to determine the related deferred tax balance.

Under Canadian GAAP, in the determination of temporary differences related to non-monetary assets and liabilities, the temporary differences computed in local currency are multiplied by the appropriate tax rate. The resulting deferred tax amount is then translated into the Company's functional currency if it is different from the local currency.

During the three months ended September 30, 2010, the accounting required under IFRS resulted in a decrease of \$9,368 in deferred tax recovery, an increase of \$581 to deferred tax liabilities, and a decrease of \$8,787 to foreign exchange loss.

## **24. IFRS (Continued)**

During the nine months ended September 30, 2010, the accounting required under IFRS resulted in an increase of \$5,022 in deferred tax recovery, a decrease of \$99,614 to deferred tax liabilities, and a decrease of \$94,592 to foreign exchange loss.

### *vii. Other Provisions*

Under IFRS, provisions representing obligations with uncertain timing and/or settlement amounts are required to be separately presented on the consolidated statement of financial position. Canadian GAAP did not have this requirement.

There was no impact to the Company during the three months ended September 30, 2010, as a result from the transition to this IFRS.

During the nine months ended September 30, 2010, other provisions were increased, and accounts payable and accrued liabilities were decreased, by \$1,682.

### *viii. Correction of a Prior Period Error*

On transition to IFRS, errors in prior periods are permitted to be corrected.

During the three months ended June 30, 2010, the Loan was partially repaid and the remaining outstanding balance was restructured (Note 12). The original recording of this transaction was an error, and it was corrected in the Company's annual financial statements for the year ended December 31, 2010. With the transition to IFRS, the same correction will be deemed to have occurred in the interim financial statements for the three months ended June 30, 2011, and the nine months ended September 30, 2011. This correction reduces the equity component of the convertible loan by \$1,143, and increase contributed surplus by the same amount.

## **25. SUBSEQUENT EVENTS**

On November 7, 2011, 5,833 share purchase warrants with an exercise price of \$3.35 were unexercised and expired. As at September 30, 2011, these share purchase warrants were classified within equity and had a value of \$nil (Note 14d).

On November 10, 2011, 12,355 share purchase warrants with an exercise price of C\$0.40 were unexercised and expired. As at September 30, 2011, these share purchase warrants were classified as derivative financial liabilities and were carried at their total fair value of \$4, as determined using the Black-Scholes Option-Pricing model (Note 13).

As required by the Decree, effective November 15, 2011, 60 days subsequent to the publication of the Decree, the Venezuelan government increased the royalty rate charged on gold extracted from all Venezuelan gold mines to 13%.