This Management's Discussion and Analysis ("MD&A") for Rusoro Mining Ltd. ("the Company") should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements ("interim financial statements") for the three months ended March 31, 2011 ("Q1 2011") and supporting notes as well as the annual audited consolidated financial statements of the Company and supporting notes and the related annual MD&A for the year ended December 31, 2010.

The financial information presented in this MD&A is reported in US dollars, unless otherwise indicated, and is partly derived from the Company's interim financial statements prepared consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") to IFRS is set out in Note 24 of the Q1 2011 interim financial statements. The effective date of this MD&A is June 29, 2011. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.

Contents of the MD&A

1. OVERVIEW OF THE COMPANY

The principal business activities of the Company are the acquisition, exploration, development and operation of gold mineral properties in Venezuela. The Company currently holds a 95% controlling interest in the Choco 10 mine ("the Choco Mine") and a 50% interest in the Isidora mine ("the Isidora Mine"), which the Company operates as part of a joint venture ("the Joint Venture") with the Venezuelan government. The Company also holds interests in various exploration and development projects in Venezuela.

The Company's corporate head office is in Vancouver, Canada and the Company has an in-country corporate office in Caracas, Venezuela and a regional office in Puerto Ordaz, Venezuela.

2. CORPORATE DEVELOPMENT HIGHLIGHTS

The Company's highlights for Q1 2011 were:

— Average realized gold price per ounce sold of $1,292 (three months ended March 31, 2010 ("Q1 2010"): $718) and cash cost per ounce sold of $1,294 (Q1 2010: $587). The higher average realized gold price is a result of a higher international spot price per ounce of gold in Q1 2011 and the Change in Translation Rate (see "Consolidated Results of Operations" section). The higher cash cost per ounce sold is mainly due to the lower production ore grade, the Change in Translation Rate and an increase in labour costs resulting from the Venezuelan inflation rate.

— Gold production of 17,742 ounces of finished gold (doré form) (Q1 2010: 27,986 ounces) (2011 revised guidance: 98,000 ounces) and gold sold of 22,052 ounces (Q1 2010: 22,760 ounces).

— During Q1 2011, the Company exported 11,817 ounces of finished gold at the international spot price per ounce, less associated costs and commissions.

The Company's highlights subsequent to Q1 2011 were:

— During the period subsequent to Q1 2011 and up to the date of this MD&A, the Company exported 7,824 ounces of finished gold at the international spot price per ounce, less associated costs and commissions.

— On June 10, 2011, the Company did not perform the repayment of the convertible loan for $30 million (see "Financial Position" section). 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 complete financing options that it is currently evaluating to fund the retirement of the loan and general corporate purposes.

3. CONSOLIDATED RESULTS OF OPERATIONS

Effective May 17, 2010, the Venezuelan government enacted a law that effectively closed the swap market, eliminating the implicit exchange rate previously used to translate transactions and balances. As a result of this change, translation of transactions and balances into US dollars are done using the Venezuelan Bolivar Fuerte ("BsF") official rate of BsF 4.30/$1.00 which significantly increased the US dollar revenues, costs, expenses, and consolidated statement of financial position amounts ("the Change in Translation Rate") (see "Venezuela Currency Exchange and Gold Sales" section).

Results for Q1 2011:

— Revenue increased to $28.5 million (22,052 ounces sold) in Q1 2011 from $16.3 million (22,760 ounces sold) in Q1 2010 due to the increase in the average international spot price of gold to $1,384 in Q1 2011 from $1,109 in Q1 2010, and due to the Change in Translation Rate.

— Mining operating expenses and depreciation and depletion increased to $30.1 million and $3.2 million, respectively, in Q1 2011 from $13.5 million and $2.9 million in Q1 2010. This cost increase is primarily due to the Change in Translation Rate. Operational factors impacting the amount of tonnes mined, tonnes milled and average ore grade realized also negatively impacted production costs in Q1 2011 at the Choco Mine and Isidora Mine.

— General and administrative expenses decreased to $1.8 million in Q1 2011 from $2.8 million in Q1 2010 significantly due to increased efficiencies and the non-renewal of consulting agreements with two senior officers of the Company.

— Interest on the Company's convertible loan decreased to $1.5 million in Q1 2011 from $2.6 million in Q1 2010 due to the partial retirement of the convertible loan during 2010.

— Gain on revaluation of derivative financial liabilities increased to $2.2 million in Q1 2011 from $0.2 million in Q1 2010 due to the issuance and subsequent revaluation of Canadian dollar (C$) warrants, which were issued in June 2010 as part of the convertible loan refinancing transaction.

— Foreign exchange loss was $3.7 million in Q1 2011 compared to a foreign exchange gain of $3.6 million in Q1 2010. The foreign exchange gain experienced in Q1 2010 was due to the Company having a negative net monetary position (assets less liabilities) and the change in translation rate from BsF 5.97/$1.00 (December 31, 2009) to BsF 7.00/$1.00 (March 31, 2010), which created gains on the translation of the net monetary position as the Company's liabilities denominated in BsF became less costly to settle.

— Deferred tax recovery increased to $7.9 million in Q1 2011 from $3.1 million in Q1 2010 due to declining results at the Choco Mine and the Isidora Mine.

— Net loss amounted to $1.4 million during Q1 2011 compared to net profit of $1.2 million during Q1 2010.

The following tables summarize key operating statistics for 100% of the Choco Mine and 50% of the Isidora Mine:

	3 Months Ended March 31, 2011			3 Months Ended March 31, 2010		
	Choco	Isidora	Total	Choco	Isidora	Total
Ore tonnes mined ('000 t)	83	9	92	396	6	402
Ore tonnes milled ('000 t)	363	6	369	371	4	375
Average grade (g/t)	1.28	16.40	1.53	2.18	23.51	2.41
Average recovery rate (%)	93	90	93	93	90	93
Gold produced (ounces)	13,956	3,786	17,742	25,142	2,844	27,986
Gold sold (ounces)	17,410	4,642	22,052	20,821	1,939	22,760
Total mining operating expenses $(000)	24,612	5,531	30,143	12,171	1,352	13,523
- decommissioning and restoration provision accretion $(000)	(227)	(176)	(403)	(92)	(80)	(172)
- impairment of inventories $(000)	(1,201)	-	(1,201)	-	-	-
Total cash costs $(000)(1)	23,184	5,355	28,539	12,079	1,272	13,351
Total cash costs per ounce sold $(2)	1,332	1,154	1,294	580	656	587
Average spot gold price per ounce $	n/a	n/a	1,384	n/a	n/a	1,109
Average realized gold price per ounce sold $	1,285	1,319	1,292	716	735	718

The following notes are applicable to the above table:

(1) Total cash costs used in the calculation of cash costs per ounce is calculated as mining operating expenses from the consolidated statement of comprehensive income (loss) excluding accretion expense related to the decommissioning and restoration provision and expense for impairment of inventories.

(2) Cash costs per ounce sold is a non-IFRS measure. Total cash costs per ounce sold is calculated by dividing the total cash costs by the gold ounces sold during the period. Cash costs per ounce sold includes all expenditures related to the mine such as mining, processing, administration, royalties and production taxes but excludes reclamation, capital and exploration expenditures, and impairments of inventories.

3.1 Choco Mine

Results for Q1 2011:

- During Q1 2011, the Choco Mine produced 13,956 ounces compared to 25,142 ounces in Q1 2010. This decrease was due to a decrease in the tonnes milled and the head-grade of the ore processed to 363,000 tonnes and 1.28 g/t, respectively, in Q1 2011 from 371,000 tonnes and 2.18 g/t in Q1 2010. The decrease in ore processed was due to the decrease in tonnage mined as a result of reduced haulage fleet availability (due to constraints in cash), which required consumption of lower grade ore stockpile and resulted in a lower average head-grade.

- Cash cost per ounce sold increased to $1,332 in Q1 2011 from $580 in Q1 2010. This increase is due to higher labour costs resulting from the Venezuelan inflation rate and lower production ore grade.

3.2 Isidora Mine

On December 23, 2008, the Company started proportionately consolidating its 50% share of the underground Isidora Mine, which the Company operates as part of the Joint Venture with the Venezuelan government.

Results for Q1 2011:

- During Q1 2011, the Isidora Mine produced 3,786 ounces compared to 2,844 ounces in Q1 2010. This increase in gold production resulted from an increase in tonnes milled to 6,000 in Q1 2011 from 4,000 tonnes in Q1 2010 and a reduction of in process gold inventory, which more than offset the decrease in the head-grade of ore processed from 23.51 g/t in Q1 2010 to 16.40 g/t in Q1 2011. Average grade was negatively impacted as a result of the large portion of the ore processed coming from zones in development or in-transition to other high-grade mineralized ore bodies of the Isidora Mine.

- Cash cost per ounce sold increased to $1,154 during Q1 2011 from $656 during Q1 2010. This increase is due to the Change in Translation Rate, lower ore grade and the increase in labour costs resulting from the Venezuelan inflation rate.

During Q1 2011, a 40,000 metre drilling program was commenced. A total of four drill rigs are testing known gold mineralization around the current underground development.

3.3 Exploration and Development

San Rafael El Placer

The Company has successfully concluded during Q1 2011 the construction of a ventilation shaft and began developing underground tunnels to gain increased access to mineralized zones and is stockpiling pre-commercial production ore from San Rafael El Placer ("SREP"). The pre-commercial production ore from SREP is being processed at the Choco Mine Mill. During Q1 2011, pre-commercial production revenues were realized for 3,352 ounces of finished gold ($5.0 million) and reduced from mineral properties on the Company's consolidated statement of financial position. Total development at SREP is now 3.92km (including main ramp); 0.39km developed during Q1 2011.

No additional exploration drilling was completed during Q1 2011.

Increible 6

Exploration and development activities during Q1 2011 comprised largely of surveying and related work designed to provide additional information for the detailed geological model for on-going development. No additional drilling was completed in Q1 2011. All zones remain open. The oxide portion of Increible 6 is included into the Choco Mine oxide strategy for near term exploitation. An updated NI 43-101 compliant resource estimate for Increible 6 is in progress and is scheduled to be completed during 2011.

3.4 Corporate

See "Consolidated Results of Operations" section above for discussion of Q1 2011 general and administrative expenses and share-based compensation expense.

4. VENEZUELAN CURRENCY EXCHANGE AND GOLD SALES

In 2003, the Venezuelan government implemented foreign exchange controls which fixed the rate of exchange between the Venezuelan Bolivar ("Bs") and the US dollar. Effective January 1, 2008 the Venezuelan government changed the name of the currency to the Venezuelan Bolivar Fuerte and modified the currency by fixing the official rate at BsF 2.15/$1.00. On January 11, 2010 the Central Bank of Venezuela ("CBV") and Ministry of Finance passed Exchange Agreement No. 14, which modified the currency by fixing the official exchange rate at BsF 4.30/$1.00 for most goods and services and BsF 2.60/$1.00 for certain priority items, such as basic foods, medicines and industrial equipment. In October of 2005, the Venezuelan government enacted the Criminal Exchange Law, which imposes sanctions on the exchange of BsF with foreign currency unless the exchange is made by officially designated methods. The exchange regulations did not apply to transactions with certain securities denominated in BsF, which could be swapped for securities denominated in another currency effectively resulting in a swap market ("the Swap Market") which provided an implicit value for the exchange rate for the BsF/US dollar ("the Implicit Exchange Rate").

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

On June 9, 2010 the Venezuelan government enacted additional reforms to its exchange control regulations and introduced Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME"), a newly regulated foreign exchange system controlled by the CBV. The SITME imposes volume restrictions on the conversion of BsF to US dollars of $350,000 per month per Venezuelan entity that meets the SITME requirements; Promotora Minera de Guayana, P.M.G., S.A. is registered with SITME.

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

On June 16, 2009, the CBV passed Resolution No. 09-06-03 which became effective June 22, 2009, that replaced Resolution No. 09-04-03 that the CBV had passed on April 30, 2009. Resolution No. 09-06-03 mandated that for companies in which the Venezuela State has an interest of less than 50%, at least 60% of the gold produced in the country in each calendar quarter was required to be offered for sale to the CBV and up to 10% can be offered for sale to the domestic processing industry. The remaining 30% of the gold produced in Venezuela could be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV. In companies in which the Venezuelan State has an interest of 50% or greater, of the gold produced in the country in each calendar quarter, at least 25% was required to be offered for sale to the CBV and up to 25% could be offered for sale to the domestic processing industry. The remaining 50% could be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV. On July 15, 2010, the CBV passed Resolution No. 10-07-01 that replaced Resolution No. 09-06-03 and the CBV and Ministry of Finance passed an updated Exchange Agreement No. 12 that replaced the previous version.

Resolution No. 10-07-01 and the updated Exchange Agreement No. 12 became effective August 12, 2010. Resolution No. 10-07-01 mandates that 50% of gold produced in the country in each calendar quarter must be offered for sale to the CBV and after obtaining authorization to export from the CBV, the remaining 50% can be exported or offered for sale to the CBV, at the option of the gold producer. Authorization to export is obtained in the form of renewable permits, which are provided by the CBV and which expire 45 days from issuance. The updated Exchange Agreement No. 12 mandates that for companies in which the Venezuelan state has an interest of less than 50%, 50% of proceeds from gold exports collected in a currency other than BsF can be used for certain direct payments in foreign currency for items which are to be further defined by the CBV. The remaining 50% of the proceeds from gold exports must be exchanged for BsF with the CBV at the official rate of BsF 4.30/$1.00. For companies in which the Venezuelan State has an interest of 50% or greater, all proceeds from gold exports collected in a currency other than BsF can be used for certain direct payments in foreign currency for items which are to be further defined by the CBV.

Prior to the updated Exchange Agreement No. 12 as described above, for companies in which the Venezuelan State has an interest of less than 50%, proceeds from gold exports collected in a currency other than BsF were required to be exchanged for BsF with the CBV at the official rate of BsF 4.30/$1.00 and companies in which the Venezuelan State has an interest of 50% or greater could use the proceeds from gold exports collected in a currency other than BsF to make direct payments in foreign currency.

During Q1 2011, the Company exported a portion of finished gold ounces in accordance with the terms of the CBV Resolution No 10-07-01 and the updated Exchange Agreement No. 12, with the remaining finished gold ounces being sold to the CBV. Both types of sales were based on the international US dollar spot gold price, less a discount of 1.5% for CBV sales and 4.5% for export sales. Payments for sales to the CBV are received in BsF at the official exchange rate of BsF 4.30/$1.00; payments for export sales are received in US dollars.

5. SELECTED QUARTERLY INFORMATION

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Revenue $(000)	28,495	33,497	42,688	51,144	16,343	4,617	26,411	11,185
Net (loss) profit attributable to equity shareholders of the Company $(000)	(1,285)	9,083	5,816	3,172	868	(10,084)	(350)	(6,393)
Basic and diluted earnings (loss) per share $	(0.00)	0.02	0.01	0.01	0.00	(0.02)	0.00	(0.01)

Note: *Information for 2009 is presented in accordance with GAAP and was not required to be restated to IFRS.*

The Company has experienced significant volatility in its results over the eight most recently completed quarters. Revenues have been volatile primarily as a result of volatile gold sales due to uncertainties caused by the issuance and interpretation of the resolutions and exchange agreements described in the "Venezuela Currency Exchange and Gold Sales" section. Net income/loss has been volatile primarily due to volatility of revenue and changes in mining operating expenses due to decreasing production.

6. FINANCIAL POSITION

The Company's assets totaled $976 million as at March 31, 2011 (December 31, 2010: $980 million; January 1, 2010: $971 million). Total assets primarily consisted of $5 million in cash (December 31, 2010: $4 million; January 1, 2010: $10 million), $22 million in receivables (current and non-current) (December 31, 2010: $27 million; January 1, 2010: $16 million), $34 million in inventories (December 31, 2010: $38 million; January 1, 2010: $53 million) which are recorded at the lower of cost and net realizable value, $628 million in property, plant and equipment (December 31, 2010: $629 million; January 1, 2010: $632 million) and $266 million in mineral properties (December 31, 2010: $266 million; January 1, 2010: $247 million). A significant amount of the Company's liabilities, including accounts payable and accrued liabilities of $61 million as at March 31, 2011 (December 31, 2010: $55 million; January 1, 2010: $26 million) are monetary items and have been translated from BsF to US dollars at the official exchange rate of BsF 4.30/$1.00 at March 31, 2011. Deferred tax liabilities of $202 million (December 31, 2010: $209 million; January 1, 2010: $239 million) originated from the acquisition of the Choco Mine and Isidora Mine as a result of paying purchase prices greater than the underlying taxable value. The Company's current assets less current liabilities decreased $12 million since December 31, 2010 as a result of capital expenditures during Q1 2011 and extending payment terms with vendors in order to conserve cash.

A convertible loan of $29 million (December 31, 2010: $29 million; January 1, 2010: $58 million), which was due on June 10, 2011, represents the balance at March 31, 2011 of the convertible loan, which is being accreted at an effective interest rate of 21% (contractual rate of 10%) and the $1 million equity component (December 31, 2010: $1 million; January 1, 2010: $5 million) attributable to the convertible option of the lenders, which is disclosed within the Company's equity. The Company did not perform the repayment of the convertible loan on the June 10, 2011 maturity date and, as at June 29, 2011, this amount remains outstanding. The Company is in discussions with the lenders for the granting of an extension to the convertible loan repayment period for a sufficient amount of time to allow the Company to complete financing options that it is currently evaluating to fund the repayment of the convertible loan. The loan is held in US dollars and is repayable as indicated under the "Liquidity and Capital Resources" section.

7. LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position increased $0.5 million during Q1 2011. The majority of the increase in cash flow from operations of $4.2 million which was offset by the negative cash flow from investing activities of $3.7 million.

The increase in cash flow from operations from an outflow of $4.5 million during Q1 2010 to an inflow of $4.2 million during Q1 2011 was mainly the result of the Company collecting a significant portion of the value added tax receivable from a third party for $7.8 million and increased accounts payable and accrued liabilities of $5.8 million.

The decrease in cash outflow from investments from an inflow of $1.0 million for Q1 2010 to an outflow of $3.7 million for Q1 2011 was primarily the result of the Company redeeming $3.8 million of short-term investments in Q1 2010. The Company spent $3.3 million on plant and equipment purchases and $5.5 million on mineral properties during Q1 2011 as compared to $0.7 million and $2.1 million during Q1 2010, respectively. Significant amounts of these expenditures were for further developing access to the SREP gold mineralized zones and for a mobile crusher for the Choco Mine.

Additionally, the Company realized $5.0 million from the sale of pre-commercial production finished gold ounces extracted from SREP and processed at the Choco Mine Mill.

The Company believes it has financing options which could generate sufficient cash to service the Company's loan requirement and reduce its other current liabilities including, but not limited to, the following:

a) Issuance of equity or debt securities;
b) Selling assets of the Company; and
c) Refinancing the convertible 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.

The Company maintains the majority of its cash in US dollars. The Company incurs operating expenditures and a significant portion of capital expenditures in US dollars. The Company also maintains necessary cash in BsF and C$, sufficient to fund short-term operating commitments in those currencies.

Practical restrictions currently exist on the ability of the Company to convert BsF to US dollars and to transfer funds from the Joint Venture to the Company's other subsidiaries. The restrictions on converting funds from BsF to US dollars arise as the Company no longer has access to the Swap Market and even though the Company has obtained access to SITME, there are volume restrictions as described in the "Venezuela Currency Exchange and Gold Sales" section. The Company will obtain access to US dollars from its export of finished gold ounces to make certain direct payments in foreign currency as discussed in the "Venezuela Currency Exchange and Gold Sales" section contingent on the Company's ability to continue to renew export permits upon expiry. The restrictions on transfers of funds from the Joint Venture arise from the fact that financial decisions impacting the Joint Venture are made in collaboration with the Company's joint venture partner, the Venezuelan government.

These restrictions affect the Company's ability to use cash resources from the Joint Venture to fund the Company's operations in segments other than the Isidora Mine segment, including the repayment of the convertible loan. Cash as at March 31, 2011 includes $0.5 million held by the Joint Venture.

As at June 29, 2011, the Company has $4 million in cash and the $30 million principal portion of the convertible loan remains outstanding.

8. OUTLOOK

The Company expects to produce 98,000 ounces of finished gold from the Choco Mine and its 50% interest in the Isidora Mine. Total cash costs per ounce sold for 2011 are expected to be $1,050 per ounce. For the cost per ounce estimate, the Company assumes that the Venezuelan government will not devalue the currency in reaction to the highly inflationary economy. As a result, a BsF/US dollar average exchange rate during the year for translation of BsF 4.30/$1.00 is forecasted. Any increase in the rate will likely generate a reduction in the Company's expected costs and capital expenditures.

8.1 Choco Mine

For 2011, the projected gold production guidance for the Choco Mine is 80,000 ounces of gold and projected cash cost per ounce sold of $1,000.

Capital expenditures expected for the full year 2011 at the Choco Mine (including Increible 6) include:

Feasibility study: $0.4 million
Resource to reserve conversion drilling: $5.0 million
Processing plant improvements: $15.0 million
Tailings dam upgrades: $5.0 million
Other sustaining capital expenditures: $4.7 million

A scoping study for the expansion of the output at the Choco Mine operation to an ore production rate of up to 20,000 tonnes per day was completed in May 2009. The Choco Mine operation includes the presently operating Rosika, Coacia, Pisolita and Capia open pits and planned mine production from the Villa Balazo-Karolina (VBK) pit at the Choco Mine and from the 100% owned Increible 6 concession, which is located 8 km northeast of the Choco Mine, as well as from the small Cerro Azul deposit. The feasibility study initiated in Q3 2009 is expected to be completed during 2011.

During 2010, the Company obtained the Increible 6 permit to affect natural resources from MinAmb. Once in production, this will allow the Company to increase gold production in the near term as the material available at Increible 6 includes softer ore which will allow for the treatment of a greater volume of material than is currently being processed at the Choco Mine Mill.

8.2 Isidora Mine

Ore from the Company's 50% interest in the Isidora Mine is expected to continue to be processed during 2011 at the La Camorra Mill (with occasional processing at the Choco Mill), which is located 120 kilometres from the Isidora Mine.

For 2011, the projected gold production guidance for the Isidora Mine is 36,000 ounces of gold (18,000 ounces net to the Company) and projected cash cost per ounce sold of $1,300.

Forecasted capital expenditures at the Isidora Mine for 2011 include sustaining capital expenditures (mainly renewal of mining equipment and fleet) of $4.0 million ($2.0 million net to the Company). The Company expects to incur $6.0 million ($3.0 million net to the Company) in expenditures related to drilling and $3.0 million ($1.5 million net to the Company) for expenditures related to maintenance of the La Camorra Mill. The Company is expecting to provide a resource update for the Isidora Mine in 2011.

8.3 San Rafael El Placer

Forecasted capital expenditures expected for the full year 2011 at SREP are $20 million, which mainly includes underground development, machinery and equipment, and other infrastructure costs. The Company expects SREP to maintain its pre-commercial production status during 2011.

9. COMMITMENTS AND CONTINGENCIES

As at March 31, 2011, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for explosives, community relations, security, consulting and other services as follows:

	$(000)
2011	12,565
2012	8,854
2013	7,198
2014	6,061
2015 and thereafter	28,628
	63,306

Gold Reserve Lawsuit

On December 15, 2008, the Company launched an unsolicited take-over bid (“the Gold Reserve Bid”) for Gold Reserve Inc. (“Gold Reserve”). On February 18, 2009, the Company’s offer for Gold Reserve expired and because the conditions to the Company’s offer were not met, the Company did not take up any securities under the offer. The Company recorded the costs related to the Gold Reserve Bid and the resulting litigation (as described below) as an other expense in the Company’s 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 million and punitive damages of $50 million 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 $102.5 million 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 million for trespass and conversion, interference with contractual and economic relations, and punitive damages of $50 million. The claim against the Advisor has also been reduced to a total of $200 million. The outcome of this matter is not determinable at this time and no amount has been accrued in the interim financial statements for this claim.

Non-Compliance

During June 2010, the Company entered 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 $19.6 million and/or denial of the Company’s ability to generate revenues. No amount has been accrued in the interim financial statements in connection with this matter since the outcome cannot be determined at this time.

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 statements of financial position, comprehensive income (loss) or cash flows.

10. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

11. RELATED PARTY TRANSACTIONS

The balances and transactions discussed below are expressed in thousands of US dollars:

— Included in amounts capitalized in mineral properties is $18 related to the provision of technical and geological services and machinery rental from a company of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

— Included in accounts payable and accrued liabilities is $321 related to amounts due to a company which Andre Agapov, a director/officer of the Company and Jay Kaplowitz, a director of the Company, are an officer and director, respectively, and to a law firm, which Jay Kaplowitz, a director of the Company, is a partner. These amounts are unsecured, due on demand and non-interest bearing.

— Included in mining operating expenses is $60 related to machinery rental from a company of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

— Included in general and administrative expenses is $27 related to the rental of the Caracas office from a company that Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

— Included in general and administrative expenses are professional fees of $137, related to legal services rendered in connection with the expansion of production facilities, and $22 related to the provision of other legal matters, paid to a law firm, of which, Jay Kaplowitz, a director of the Company, is a partner.

Related party transactions are recorded at the price agreed to between the parties.

12. DISCLOSURE OF OUTSTANDING SHARE DATA

As at June 29, 2011, the Company has 530,120,623 common shares issued and outstanding, 49,408,059 stock options to acquire an equal amount of common shares outstanding of which 49,153,059 were exercisable, 151,155,044 warrants to acquire an equal amount of common shares outstanding, and the $30 million principal of the convertible loan is convertible into 75,000,000 common shares.

13. CHANGES IN ACCOUNTING POLICIES

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.

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.

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).

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the International Accounting Standards Board and are comprised of IFRSs, IASs, and interpretations issued by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

As previously discussed in the Company's MD&A for the year ended December 31, 2010, the Company implemented its conversion from Canadian GAAP to IFRS through a transition plan that involved the following three phases:

- Phase One, an initial general diagnostic of its accounting policies and GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS, was completed in 2009.

- Phase Two, an in depth analysis of the impact of those areas identified under phase one, was completed in 2010.

- Phase Three, the implementation of the conversion process, through the preparation of the Company's opening consolidated statement of financial position at January 1, 2010, was completed during Q1 2011.

There were no significant issues noted during the Company's Q1 2011 reporting process.

14.1 Impact of Transition between Canadian GAAP and IFRS

As a result of the policy choices selected and the changes which were required under IFRS, a decrease in the Company's equity of approximately $37 million as at January 1, 2010 has been recorded. The tables below reconcile the Company's consolidated statements of financial position as at January 1, 2010, March 31, 2010, and December 31, 2010 and the consolidated statements of comprehensive income (loss) for the three months ended March 31, 2010 and the year ended December 31, 2010.

(Expressed in thousands of US dollars)

	January 1, 2010			March 31, 2010			December 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS									
Current assets	$77,037	$1,619	$78,656	$80,899	$1,056	$81,955	$68,558	($807)	$67,751
Receivables	13,041	-	13,041	11,453	-	11,453	14,591	-	14,591
Property, plant and equipment	675,185	(43,641)	631,544	672,335	(43,298)	629,037	668,996	(40,204)	628,792
Mineral properties	268,794	(21,295)	247,499	270,934	(21,295)	249,639	285,831	(19,676)	266,155
Deferred tax assets	-	-	-	-	-	-	-	3,208	3,208
	$1,034,057	($63,317)	$970,740	$1,035,621	($63,537)	$972,084	$1,037,976	($57,479)	$980,497
LIABILITIES									
Current liabilities	$90,706	($49)	$90,657	$94,626	($83)	$94,543	$98,035	$287	$98,322
Accrual for termination benefits	915	-	915	1,136	-	1,136	3,492	-	3,492
Derivative financial liabilities	-	324	324	-	108	108	-	4,001	4,001
Decommissioning and restoration provision	3,125	(704)	2,421	3,029	(769)	2,260	5,450	(959)	4,491
Deferred tax liabilities	264,405	(25,518)	238,887	218,768	16,345	235,113	338,973	(129,744)	209,229
	359,151	(25,947)	333,204	317,559	15,601	333,160	445,950	(126,415)	319,535
EQUITY									
Issued capital	$736,087	$-	$736,087	$736,087	$-	$736,087	$736,238	$-	$736,238
Equity component of convertible loan	4,733	-	4,733	4,733	-	4,733	1,223	-	1,223
Share purchase warrants issued	64,737	(64,737)	-	64,737	(64,737)	-	65,610	(65,610)	-
Share purchase warrants committed	-	-	-	-	-	-	330	(330)	-
Contributed surplus	56,937	-	56,937	57,109	-	57,109	62,970	-	62,970
Accumulated other comprehensive loss	(5,558)	5,558	-	(5,558)	5,558	-	(5,558)	5,558	-
Deficit	(182,238)	21,809	(160,429)	(139,602)	(19,959)	(159,561)	(270,808)	129,318	(141,490)
	674,698	(37,370)	637,328	717,506	(79,138)	638,368	590,005	68,936	658,941
Non-controlling interests	208	-	208	556	-	556	2,021	-	2,021
	674,906	(37,370)	637,536	718,062	(79,138)	638,924	592,026	68,936	660,962
	$1,034,057	($63,317)	$970,740	$1,035,621	($63,537)	$972,084	$1,037,976	($57,479)	$980,497

(Expressed in thousands of US dollars)

	Three months ended March 31, 2010			Year ended December 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
REVENUES FROM MINING OPERATIONS	$16,343	$-	$16,343	$143,672	$-	$143,672
COSTS OF MINING OPERATIONS						
Mining operating expenses	13,537	(14)	13,523	111,515	161	111,676
Depreciation and depletion	2,960	(74)	2,886	21,420	(2,337)	19,083
	16,497	(88)	16,409	132,935	(2,176)	130,759
(LOSS) PROFIT FROM MINING OPERATIONS	(154)	88	(66)	10,737	2,176	12,913
Share-based compensation expense	172	-	172	1,417	-	1,417
General and administrative	2,761	-	2,761	9,187	-	9,187
Foreign exchange (gain) loss	(41,755)	38,201	(3,554)	100,848	(106,109)	(5,261)
	(38,822)	38,201	(621)	111,452	(106,109)	5,343
PROFIT (LOSS) FROM OPERATIONS	38,668	(38,113)	555	(100,715)	108,285	7,570
Interest on convertible loan	2,638	-	2,638	8,005	-	8,005
(Gain) loss on revaluation of derivative financial liabilities	-	(205)	(205)	-	2,369	2,369
Impairment of property, plant and equipment	-	12	12	-	1,496	1,496
Other expenses (income)	104	(154)	(50)	929	96	1,025
	2,742	(347)	2,395	8,934	3,961	12,895
PROFIT (LOSS) BEFORE INCOME TAXES	35,926	(37,766)	(1,840)	(109,649)	104,324	(5,325)
Current tax expense	-	-	-	534	-	534
Deferred tax (recovery) expense	(7,058)	4,002	(3,056)	(23,426)	(3,185)	(26,611)
	(7,058)	4,002	(3,056)	(22,892)	(3,185)	(26,077)
PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$42,984	($41,768)	$1,216	($86,757)	$107,509	$20,752

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.

On transition to IFRS, the current and non-current portions of the decommissioning and restoration provision were decreased by $0.05 million and $0.7 million, respectively, in the January 1, 2010 consolidated statement of financial position. The application of the IFRS 1 exemption resulted in a decrease of $0.3 million to the carrying value of property, plant and equipment in the January 1, 2010 consolidated statement of financial position. These adjustments resulted in a decrease in the Company's deficit of $0.4 million.

During Q1 2010, the accounting under IFRS resulted in a decrease of $0.04 million and $0.07 million to the current and non-current portions of the decommissioning and restoration provision, respectively. The carrying value of the property, plant and equipment was decreased by $0.3 million. Other adjustments included a $0.4 million increase to the loss on foreign exchange, $0.01 million and $0.002 million decreases to mining operating expense and depreciation and depletion, respectively, and a $0.01 million reduction to finance expense (accretion) and a $0.1 million gain recognized on revaluation of the provision, both of which were recognized through other expenses.

During the year ended December 31, 2010, the accounting under IFRS resulted in an increase of $0.3 million in the current portion of the decommissioning and restoration provision and decrease of $0.3 million to the non-current portion. The carrying value of the property, plant and equipment increased by $0.8 million, net of an impairment of $0.7 million on amounts related to the capitalization of the increase in the provision. Other adjustments included a decrease in the foreign currency loss of $1.6 million, a $0.2 million increase to mining operating expenses, a $0.002 million decreases to depreciation and depletion, and an increase of $0.06 million to finance expense (accretion) with a $0.1 million gain recognized on revaluation of the provision, both of which were recognized through other expenses. In addition, during the period, an amount of $0.7 million was capitalized into the property, plant and equipment relating to the Isidora segment, which was immediately impaired.

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 convertible 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 the Company's profit or loss.

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

On transition, the accounting under IFRS resulted in a decrease of $64.7 million in share purchase warrants issued, the recognition of $0.3 million as the unrealized fair value of the derivative financial liabilities, and a decrease of $64.4 million to the Company's deficit representing the impacts of the revaluation of the C$ share purchase warrants at fair value as at the transition date.

During Q1 2010, the accounting under IFRS resulted in a decrease of $0.2 million to derivative financial liabilities, and a corresponding foreign exchange gain increase of $0.01 million and a gain on revaluation of the derivative financial liabilities of $0.2 million.

During the year ended December 31, 2010, a total of $1.2 million was removed from share purchase warrants issued and share purchase warrants committed in order to reclassify these instruments as derivative financial liabilities. The reclassification of these share purchase warrants, in addition to increases in the fair value of the share purchase warrants, resulted in the recognition of an increase in the derivative financial liabilities of $3.7 million. During the period, the foreign exchange loss also increased by $0.1 million and loss on revaluation of financial liabilities by $2.4 million.

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.

On transition to IFRS, the requisite accounting resulted in a decrease in mineral properties $19.7 million and deferred tax liabilities of $13.3 million. The difference of $6.3 million was an increase to the deficit.

During Q1 2010, as no deferred tax liability exists under IFRS, the previous Canadian GAAP adjustments to this amount were reversed. The accounting required under IFRS resulted in an increase of $2.0 million to the deferred tax liabilities and foreign exchange loss.

Similarly, during the year ended December 31, 2010, the Company recorded an increase of $5.2 million in foreign exchange gains, resulting from the decrease in deferred tax liabilities by the same amount.

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 at December 31, 2010.

On transition to IFRS, the Company completed a review for impairment indicators for its various mineral and mining properties, which resulted in the performance of an impairment test for a cash-generating unit consisting of the Isidora mining operation, the Twin Shear non-depletable mining property, and related machinery and equipment (collectively referred to herein as the "Isidora CGU"). Details regarding the Isidora segment are provided in Note 19 of the interim financial statements. The impairment assessment for the Isidora CGU was prompted as a result of the additional costs being capitalized with the carrying value as a result of the adoption of IFRS, such as for the increase in the decommissioning and restoration provision.

The assessment was performed in accordance with the methodology described in Note 3(j) of the interim financial statements using the Isidora CGU's value in use model as the recoverable amount with a blended discount rate of 21.3%, representing the pre-tax, risk-free rate representative of the time value of money and the uncertainties specific to the Isidora CGU. As a result of the impairment test, it was determined that the full carrying amount of the Isidora CGU was not recoverable. As a result, the Company reduced the net carrying value of its property, plant and equipment by $40.0 million, with a corresponding decrease in the deferred tax liabilities of $12.6 million, and an impairment loss of $27.4 million, thereby increasing the deficit.

During Q1 2010, costs of property, plant and equipment attributable to the Isidora CGU was decreased by $0.01 million (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 $0.7 million, and depreciation and depletion and gold inventory were correspondingly decreased by $0.1 million and $0.6 million, respectively. Deferred tax liabilities also increased by $1.9 million, with a decrease in deferred tax recovery of $0.07 million and foreign exchange gain of $1.8 million.

During the year ended December 31, 2010, costs of property, plant and equipment attributable to the Isidora CGU was decreased by $0.9 million (additions for the year), with a corresponding increase to impairment loss of the same amount. Accumulated depreciation and depletion on property, plant and equipment was reduced by $2.9 million, and depreciation and depletion and gold inventory were correspondingly decreased by $2.1 million and $0.8 million, respectively. Deferred tax liabilities also decreased by $3.7 million, with a decrease in deferred tax recovery of $1.0 million and an increase to the foreign exchange gain of $4.7 million.

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.

On transition to IFRS, property, costs of plant and equipment decreased by $13.4 million, of which $9.3 million was related to depletable mining properties. Accumulated depreciation and depletion on property, plant and equipment decreased by $10.0 million, and deficit was increased by $3.3 million. This adjustment also triggered a decrease in the deferred tax liabilities of $1.1 million, and the corresponding amount as a decrease to deficit.

During Q1 2010, the accounting under IFRS resulted in an increase in costs of property, plant and equipment and foreign exchange gains of $0.001 million, as well as increases in accumulated depreciation and depletion and depreciation and depletion expense of $0.07 million.

During the year ended December 31, 2010, the accounting under IFRS resulted in an increase in costs of property, plant and equipment and foreign exchange gain of $0.4 million, as well as decreases in accumulated depreciation and depletion and depreciation and depletion expense of $0.3 million.

vi. Deferred Tax Liability

Under IFRS, in the determination of temporary differences, the carrying values of non-monetary assets and liabilities are translated into the functional currency at the historical rate and compared to their tax values 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.

On transition to IFRS, the requisite accounting related to the determination of temporary differences of foreign currency non-monetary assets and liabilities resulted in a January 1, 2010 consolidated statement of financial position adjustment to decrease deferred taxes and the deficit by $1.5 million.

During Q1 2010, the accounting required under IFRS resulted in a decrease of $3.9 million in deferred tax recovery an increase of $38.0 million to deferred tax liabilities, and a decrease of $34.5 million to foreign exchange gains.

During the year ended December 31, 2010, deferred tax recovery was increased by $4.2 million and deferred tax liabilities were decreased by $98.6 million, with a decrease in foreign exchange losses of $94.4 million. During the same period, the impacts of the changes in offsetting rules resulted in a $3.2 million reclassification between deferred tax assets and liabilities.

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.

On transition to IFRS, a reclassification was recognized to increase other provisions by $4.3 million and decrease accounts payable and accrued liabilities by a corresponding amount.

During Q1 2010, other provisions decreased, and accounts payable and accrued liabilities increased, by $0.6 million.

During the year ended December 31, 2010, other provisions decreased by $0.02 million, with a corresponding increase to accounts payable and accrued liabilities.

15. INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2010, an internal controls report addressing disclosure controls and procedures and internal controls over financial reporting was provided to the Company by an external consultant engaged by management in an effort to improve the Company's disclosure controls and procedures and internal controls over financial reporting.

This report is based on interviews with selected business process owners supported by limited testing of the design and operational effectiveness of the financial controls. The significant key control weaknesses identified by the external consultants and the Company related to a lack of formalized process and responsibilities in specific areas, lack of communicated corporate policies in specific areas, lack of targets and expectations in specific areas, lack of or insufficient audit trail in specific areas and inappropriate segregation of duties in specific areas. Upon receipt of this report, management began to design and implement mitigating controls to address these weaknesses. During 2010, the Company created an internal audit department which reports directly to the Chief Financial Officer. The mandate of the internal audit department is to address the weaknesses identified.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that disclosure controls and procedures and internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Inherent limitations in internal controls include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls.

16. FINANCIAL INSTRUMENTS RISKS

Credit Risk

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

The Company's exposure to credit risk on its C$ and US dollar cash and short-term investments is limited by maintaining these assets with high-credit quality financial institutions and investing in highly rated corporations and government issuances in accordance with its investment policy as approved by the board of directors. The Company is exposed to the credit risk of Venezuelan banks, which hold cash for the Company's Venezuelan operations.

The Company limits its exposure to this risk by maintaining BsF cash balances to fund only the short-term needs of its Venezuelan subsidiaries. The Company is exposed to the credit risk of the CBV as the Company's trade receivables are due from the CBV.

Liquidity Risk

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

The Company forecasts cash flows for a period of 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 convertible loan all or in part. The table below provides a summary of the contractual obligations and payments related to financial liabilities included in the Company's consolidated statement of financial position as at March 31, 2011. The amounts disclosed are the contractual undiscounted cash flows.

	2011 $(000)	2012-2013 $(000)	Total $(000)
Accounts payable and accrued liabilities	60,671	-	60,671
Interest on convertible loan	750	-	750
Convertible loan	30,000	-	30,000
	91,421	-	91,421

Market Risk

The significant market risk exposures to which the Company is exposed are interest rate risk and currency risk.

i. Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at March 31, 2011, a 1% increase in interest rates would decrease the fair value of convertible loan by $0.2 million and a 1% decrease in interest rates would increase the fair value of the convertible loan by $0.2 million. In addition, a 1% increase in interest rates would increase the fair value of the share purchase warrants with foreign currency exercise prices by $0.04 million, and a 1% decrease in interest rates would decrease the fair value of the share purchase warrants with foreign currency exercise prices by $0.04 million.

ii. Currency Risk

Currency risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk as the Company's financial assets and liabilities include items denominated in BsF and C$. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses recognized in the Company's 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 March 31, 2011, the Company holds cash of $2.0 million (December 31, 2010: $3.6 million; January 1, 2010: $1 million) 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 is summarized below:

	As at March 31, 2011	
	25% Increase in the BsF **$(000)**	**25% Decrease in the BsF** **$(000)**
Net (loss) profit	(9,643)	7,715
	As at March 31, 2011	
	10% Increase in the C$** **$(000)	**10% Decrease in the C$** **$(000)**
Net (loss) profit	(78)	71

17. OTHER RISKS AND UNCERTAINTIES

Gold Price Volatility

The value of the Company's mineral properties and property, plant and equipment is related to the current price, and outlook for the price, of gold. The gold price can fluctuate widely and is affected by numerous factors beyond the Company's control, including industrial and jewellery demand, inflation and expectations with respect to the rate of inflation, the strength of the US dollar and other currencies, interest rates, gold sales by central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major gold-producing regions. The gold price is also subject to rapid short-term changes due to speculative activities. The Company's revenues, cash flow, profitability and the market price of the common shares of the Company are significantly affected by changes in the gold price. If the realized gold price is below the cost of production at the Company's operations for a significant period, the Company may be required to suspend or terminate production at the affected operation. In addition, the Company may be required to restate its mineral reserves and resources, write down its investment and increase or accelerate reclamation and closure charges at the affected operation. Any of these developments could negatively affect the Company's profitability, cash flows and financial position. Accordingly, even if the Company continues to produce gold, there can be no assurance that the realized gold price will be high enough to enable the Company to sell the gold produced by it profitably.

Title Risk

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company has investigated title to all of its mineral properties for which it holds concessions or other mineral leases or licenses, the Company cannot give any assurance that title to such properties will not be challenged or impugned and cannot be certain that it will have valid title to its mining properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

The Company's principal mineral properties and mining rights are located in Venezuela. In 2005, the Government of Venezuela changed the mining title regime from a system where title was granted in the form of either concessions or operating contracts to a system where all new titles are granted only in the form of operating contracts. In order to effect this change, the Government created a national mining company which became the nation's contracting party covering the entire country of Venezuela. The Government also indicated that, given this change in title regime, it would also be appropriate to review all existing mining companies in a single comprehensive exercise to ensure that only companies found to be in compliance with their existing title terms and conditions would qualify for the new title.

Any successful challenge to the Company's mineral property title rights would have a seriously detrimental impact on the Company's operations.

Country Risk

The Company's mineral exploration and exploitation activities may be adversely affected by political instability and legal and economic uncertainty in the countries where the Company has operations. The risks associated with the Company's foreign operations may include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in laws, regulation and policies, taxation, price controls, exchange controls, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental or other nongovernmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports, increased financing costs and government-imposed restrictions or conditions to the Company's gold sales in Venezuela. These risks may limit or disrupt the Company's projects or operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization, expropriation or other means without fair compensation. The Company's mineral properties and mining rights are located in Venezuela and Honduras and as such, the Company may be affected by political or economic instabilities.

Environmental Regulation and Liability

The Company's activities are subject to laws and regulations controlling not only mineral exploration and exploitation activities themselves but also the possible effects of such activities upon the environment. Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploitation activities, such as seepage from tailings disposal areas that could result in environmental pollution. A breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities. Environmental legislation is evolving, with stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted.

In the context of environmental permits, in particular the approval of closure and reclamation plans, the Company must comply with standards and laws and regulations, which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. In accordance with applicable laws, the Company has provided various forms of financial assurances to cover the cost of reclamation activities. However, there can be no assurance that the Company will not incur reclamation costs that are in excess of such financial assurances. While the Company established a reserve for reclamation activities, there can be no assurance that the combination of the reserve and financial assurances will be sufficient to meet future reclamation standards, if such standards are materially more stringent than existing standards. The Company does not maintain environmental liability insurance. The Company has adopted high standards of environmental compliance; however, failure with or unanticipated changes in Venezuela's laws and regulations pertaining to the protection of the environment in the future could adversely affect the Company.

Reserve and Resource Estimates

The Company's reported mineral reserves and resources are estimates only. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. As a result, there can be no assurance that they will be recovered at the rates estimated or at all. Mineral reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of metals, increased production costs or reduced recovery rates may render estimated mineral reserves and resources uneconomic and may ultimately result in a restatement of mineral reserves and resources. In addition, short-term operating factors, such as the need for sequential development of mineral deposits and the processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period. If its mineral reserve and resource estimates are incorrect, the Company will not correctly allocate its financial resources, causing it either to spend too much on what could be a less than economic deposit or to fail to mine what could be a significant deposit.

Mineral Exploration and Exploitation

Mineral exploration and exploitation involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. The Company has relied on and may continue to rely on consultants and others for mineral exploration and exploitation expertise. Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the material processed and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. There can be no assurance that the Company will discover mineral reserves and resources in sufficient quantities to justify exploitation or that the funds required to exploit any mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company are affected by many factors, many outside the control of the Company, including the cost of operations, variations in the grade of material mined and metals recovered, price fluctuations in the metal markets, costs of processing equipment, continuing access to smelter facilities on acceptable terms and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There can be no assurance that the Company's mineral exploration and exploitation activities will be successful.

Uninsurable Risks

Mineral exploration and exploitation activities involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could negatively affect the Company's profitability and financial position and the value of the common shares of the Company.

Production Risks

The Company prepares estimates of future production at its operations. Failure to meet these estimates could adversely affect the Company's profitability, cash flows and financial position. There can be no assurance that the Company will achieve its production estimates.

The Company's actual production may vary from its estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by governmental or regulatory authorities or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing the Company to cease production. These factors also apply to the Company's future operations.

Regulations and Permits

The Company's activities are subject to a wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered species and other matters. The Company is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits including any renewals thereof on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

Dependence on Key Management Personnel

The Company's business and operations are dependent on retaining the services of a small number of key management personnel. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of some of the directors and senior management. The loss of one or more key directors or senior management could have a materially adverse effect on the Company.

Common Share Price Volatility

The market price of the common shares of the Company could fluctuate significantly based on a number of factors in addition to those listed in this document, including the Company's operating performance and the performance of competitors and other similar companies; the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities regulatory authorities; changes in earnings estimates or recommendations by research analysts who track the common shares or the shares of other companies in the resource sector; changes in general economic conditions; the arrival or departure of key personnel; acquisitions, strategic alliances or joint ventures involving the Company or its competitors; and gold price volatility.

In addition, the market price of the common shares of the Company is affected by many variables not directly related to the Company's success and are, therefore, not within the Company's control.

18. CAUTIONARY NON-IFRS MEASURES

Total cash costs per ounce sold is a non-IFRS measure. The Company believes that, in addition to conventional measures, prepared in accordance with IFRS, certain investors use the cash costs per ounce data to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS as it does not have any standardized meaning prescribed by IFRS. Data used in the calculation of total cash costs per ounce may not conform to other similarly titled measures provided by other precious metals companies.

19. FORWARD LOOKING STATEMENTS

Certain statements in this MD&A and certain information incorporated herein by reference constitute "forward-looking information" within the meaning of applicable securities laws. Such forward-looking information includes, without limitation, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future price of gold and other precious metals, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, reserve determination and reserve conversion rates. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. While the Company has based these statements on its expectations about future events as at the date that such information was prepared, the statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking information. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A which may prove to be incorrect, include, but are not limited to: (1) there being no significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, damage to equipment or otherwise; (2) permitting, development, expansion and power supply proceeding on a basis consistent with the Company's current expectations; (3) permitting and development proceeding on a basis consistent with the Company's current expectations; (4) the exchange rate between the C$, the BsF and the US dollar being approximately consistent with current levels; (5) certain price assumptions for gold; (6) prices for and availability of natural gas, fuel oil, electricity, parts and equipment and other key supplies remaining consistent with current levels; (7) production forecasts meeting expectations; (8) the accuracy of the Company's current mineral reserve and mineral resource estimates; and (9) labour and material costs increasing on a basis consistent with the Company's current expectations.

Known and unknown factors could cause actual results or events to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets; fluctuations in the spot and forward price of gold or certain other commodities (such as diesel fuel and electricity); changes in interest rates; disruption to the credit markets and delays in obtaining financing; inflationary pressures; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Venezuela or other countries in which the Company does or may carry on business; business opportunities that may be presented to, or pursued by the Company; the Company's ability to successfully integrate acquisitions; operating or technical difficulties in connection with mining or development activities; actual results of exploration activities; the possibility of cost overruns or unanticipated expenses; employee relations; illegal miners; the speculative nature of gold exploration and development, including the risks of obtaining and renewing necessary licenses and permits; the impact of Venezuelan law on the Company's operations; diminishing quantities

or grades of reserves; adverse changes in the Company's credit rating; contests over title to properties particularly title to undeveloped properties; the occurrence of natural disasters, hostilities, acts of war or terrorism; corruption and uncertain legal enforcement; requests for improper payments; on the Company’s ability to market gold produced and on its results of operations; on the Company’s ability to obtain necessary authorizations from the CBV to export gold and on the Company’s ability to retain any portion of the funds from sales of exported gold outside of Venezuela; on the ability to access SITME which impact the Company’s ability to obtain US dollars to fund operating and capital expenditures; the result or outcome of management’s efforts to remediate the potential implications of the transactions that were not in compliance with certain Venezuelan laws and regulations; and the result or outcome of the statement of claim filed by Gold Reserve against the Company in the Ontario Superior Court of Justice claiming general damages and punitive damages in the amount of $200 million. In addition, there are risks and hazards associated with the business of gold exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formation, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance, or inability to obtain insurance to cover these risks). All of the forward-looking statements made in or incorporated by reference in this MD&A are qualified by these cautionary statements and those made in the section of this MD&A entitled “Financial Instruments Risks” and "Other Risks and Uncertainties".

Although we have attempted to identify factors that may cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Also, many of the factors are beyond our control. As actual results and future events could differ materially from those anticipated in such statements and information, readers should not place undue reliance on forward-looking statements or information. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. All forward-looking statements and information made or incorporated by reference herein are qualified by this cautionary statement.