

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 and six months ended June 30, 2012 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, 2011.

The financial information presented in this MD&A is reported in US dollars, unless otherwise indicated, and is partly derived from the Company's consolidated financial statements prepared consistent with International Financial Reporting Standards ("IFRS"). The effective date of this MD&A is August 28, 2012. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.

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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.

Until March 14, 2012, the Company held 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 operated as part of a joint venture (“the Joint Venture”) with the Venezuelan government. The Company also held interests in various exploration and development projects in Venezuela.

On September 16, 2011, the Venezuelan government, through publication in the Official Gazette of Venezuela, enacted a law-decree (“the Decree”) reserving to the government of Venezuela exclusive rights for the extraction of gold in Venezuela (“the Nationalization”). The Decree mandated the expiration of all mining concession held by the Company and their reversal to the Venezuelan government together with all related assets and operations. The Decree permitted the Company to reach an agreement with the Venezuelan government to continue operating jointly, in the form of a mixed-interest enterprise (“the Mixed Enterprise”), the mining concessions and mining assets affected by the Nationalization and in which the Company could not own more than a 45% share participation. The Decree provided for a 90-day period from September 16, 2011 for the government of Venezuela and the Company to negotiate the terms and conditions of the migration of the Company’s mining assets to the Mixed Enterprise, including the compensation to the Company for the loss of ownership of its assets as a result of the Nationalization. This 90-day negotiation period was subsequently extended to March 14, 2012 by the Venezuelan government through decree No. 8683.

The Company was unable to reach an agreement with the Venezuelan government upon the terms and conditions of the migration of its mining assets to the Mixed Enterprise within the designated time periods. Therefore, on March 14, 2012 in accordance with the procedures outlined in the Decree, all of the Company’s mining concessions expired by force of the Decree and all related assets and operations reverted to the Venezuelan government who took possession and control in accordance with Venezuelan law becoming the new operator and employer.

Starting March 15, 2012, the Company is relieved of all responsibilities associated to the mining concessions, assets and operations that were subject to expropriation, including without limitation, any contractual, mining, environmental, labor or criminal liability, and for the payment of any tax, fee or contribution of any kind, including any mining or surface tax related to such mining concessions and operations.

In accordance to Venezuelan Labor Law and the Decree, beginning March 15, 2012 the Venezuelan government became the sole and exclusive employer for the workers and employees who provide services for the operations of the mining concessions. The Company is not responsible for the actions or omissions of those workers and employees, by the damages that they may cause or suffer in the exercise of their functions or for the payment of their salaries, bonuses, benefits or any other compensation or benefit generated from the above-mentioned date, as all the workers, starting March 15, 2012, provide their services and run their work daily activities under the exclusive direction, supervision and responsibility of the Venezuelan government.

On June 15, 2012 the Company entered into a litigation funding agreement (the “Litigation Funding Agreement”) with a subsidiary (the “Funder”), of the Calunius Litigation Risk Fund LP (the “Fund”). Calunius Capital LLP is the exclusive investment advisor to the Fund which specializes in funding commercial litigation and arbitration claims. Under the terms of the Litigation Funding Agreement, the Funder has agreed to assist in the funding of Rusoro’s legal costs in relation to the international arbitration proceedings against the Republic of Venezuela (the “Respondent”) on a non-recourse basis. Rusoro will continue to have complete control over the conduct of the international arbitration proceedings, insofar as the proceedings relate to the Company’s claims, and continues to have the right to settle with the Respondent, discontinue proceedings, pursue the proceedings to trial and take any action Rusoro considers appropriate to enforce judgment.

Pursuant to the Litigation Funding Agreement, on June 14, 2012 the Company entered into a Creditors and Shareholders Agreement (the "CSA") with significant equityholders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

On July 17, 2012, the Company filed a Request for Arbitration before the Additional Facility of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") against the Bolivarian Republic of Venezuela ("Venezuela") pursuant to the Agreement between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments (the "Treaty").

There are material uncertainties surrounding the Nationalization and related arbitration, including, but not limited to the likelihood of reaching an amicable compensation with the Venezuelan government, participation in any Mixed Enterprise, the success in an arbitration proceedings against the Venezuelan government and the amount, timing and/or form of any compensation or arbitration award.

The registered office of the Company's corporate headquarters is located at 520-355 Burrard Street, Vancouver, British Columbia, Canada.

2. CONSOLIDATED RESULTS OF OPERATIONS

Effective September 16, 2011, the Decree mandated that 100% of the gold produced in Venezuela be sold to the Central Bank of Venezuela ("CBV"), effectively terminating the Company's ability to export. On March 14, 2012, in accordance with the procedures outlined in the Decree, 100% of the Company's Venezuelan mining concessions expired by force of the Decree and the Company's assets and operations reverted to the Venezuelan government.

Results for the three-month period ended June 30, 2012 ("Q2 2012"):

- Revenue decreased to \$Nil (Nil gold ounces sold) in Q2 2012 from \$26.6 million (17,912 gold ounces sold) in Q2 2011 due to the ceasing of production with the Nationalization that occurred on March 14, 2012.
- Mining operating expenses and depreciation and depletion decreased to \$Nil and \$Nil, respectively, in Q2 2012 from \$32.1 million and \$3.4 million in Q2 2011. As a result of the Nationalization on March 14, 2012, the Company stopped incurring any mining operating expenses after the nationalization date and wrote-down to \$Nil the value of its property, plant and equipment at December 31, 2011 and for this reason the Company did not record any depreciation during 2012.
- Interest expense on the Company's convertible loan decreased to \$0.8 million in Q2 2012 from \$1.4 million in Q2 2011. In Q2 2011, as the loan was not yet due, the interest expense included an interest-accretion component of \$0.8 million calculated under the amortized-cost method of measurement.
- Interest on the gold sale contract became effective in June 2012 retrospectively enacted to January 1, 2012 and amounted to \$0.6 million in Q2 2012 (\$Nil in Q2 2011). As of June 30, 2012, 7,007 ounces of finished gold were still outstanding and valued at fair market value using the spot price of gold on June 30, 2012 of \$1,599 per ounce. Included in this amount is the principal amount of 6,642 gold ounces plus accrued interest of 365 gold ounces for the period January 1, 2012 through June 30, 2012.
- The revaluation of the gold sale contract created a gain of \$0.4 million in Q2 2012 from \$Nil in Q2 2011, due to the reclassification of a gold delivery contract from deferred revenue to a derivative financial liability, and its subsequent revaluation to its fair value using the current international spot price of gold on June 30, 2012.

- General and administrative expenses were \$2.0 million in Q2 2012 compared to \$1.8 million in Q2 2011. The increase is a result of higher legal and consulting costs relating to the Nationalization partly offset by reduced corporate overhead costs.
- The Company recorded a loss of \$0.5 million on the repatriation of monetary assets from its Venezuelan subsidiaries. The loss concerned the transfer of cash to the corporate head office in Vancouver and the resulting variance in exchange rate transfers.
- Foreign exchange gain of \$0.1 million in Q2 2012 compared to a foreign exchange gain of \$1.1 million in Q2 2011. Notwithstanding foreign exchange fluctuations, as a result of the Nationalization there were significantly fewer foreign-denominated transactions and balances in Q2 2012 resulting in significantly lower foreign exchange.
- Net loss amounted to \$3.4 million during Q2 2012 compared to net loss of \$9.8 million during Q2 2011.

Results for the six-month period ended June 30, 2012 ("H1 2012"):

- Revenue decreased to \$4.9 million (3,192 gold ounces sold) in H1 2012, from \$55.1 million (39,964 gold ounces sold) in H2 2011. This was due to lower gold production during Q1 2012 as well as the ceasing of production on March 15, 2012 as a result of the Nationalization.
- Mining operating expenses and depreciation and depletion decreased to \$21.9 million and \$Nil million, respectively, for H1 2012 from \$62.2 million and \$6.6 million for H1 2011. The uncertainty created by the Nationalization among suppliers, on-site contractors and employees had a negative impact on gold production in Q1 2012, when compared to Q1 2011, reducing mining operating expenses. The Nationalization on March 14, 2012 also resulted in ceasing in production and related costs thereafter which was partially offset by a one-time increase in the allowances for doubtful recovery of receivables and prepaid expenses and deposits for \$7.7 million (2011 - \$nil). As a result of the Nationalization on March 14, 2012, the Company also wrote-down to \$Nil the value of its property, plant and equipment at December 31, 2011 and for this reason the Company did not record any depreciation during H1 2012.
- During H1 2012 the Company recorded \$0.8 million in share-based compensation expenses (H1 2011 - \$0.01 million) which is the fair value of 11 million fully-vested stock options granted to employees and management during H1 2012. No stock options were granted during H1 2011.
- Interest expense on the Company's convertible loan decreased to \$1.7 million in H1 2012 from \$2.9 million in H1 2011. In H1 2011, as the Loan was not yet due, the interest expense included an interest-accretion component of \$1.4 million calculated under the amortized-cost method of measurement. There is no accretion component for the loan in h1 2012.
- Gain on revaluation of derivative financial liabilities decreased to \$Nil in H1 2012 from a gain of \$4.1 million in H1 2011 due to the issuance and subsequent revaluation of Canadian dollar (C\$) warrants at lower current market prices. The warrants were issued in June 2010 as part of the convertible loan refinancing transaction.
- Deferred tax recovery decreased to \$Nil million in H1 2012 from a recovery of \$8.8 million in H1 2011. The decrease is because there were no deferred tax assets or liabilities during H1 2012 due to the Nationalization whereby the Company did a complete write-off of all deferred tax liabilities and assets on the statement of financial position as at December 31, 2011.
- The revaluation of the gold sale contract created a loss of \$0.4 million in H1 2012 from \$Nil in H1 2011, due to the reclassification of a gold delivery contract from deferred revenue to a derivative financial liability, and its subsequent revaluation to its fair value using the current international spot price of gold. Interest on the gold sale contract amounted to \$0.6 million in H1 2012 (\$Nil in H1 2011). As of June 30, 2012, 7,007 ounces of finished gold were still outstanding and valued at fair market value using the spot price of gold on June 30, 2012 of \$1,599 per ounce. Included in this

amount is the principal amount of 6,642 gold ounces plus accrued interest of 365 gold ounces for the period January 1, 2012 through June 30, 2012.

- Impairment loss on write-down of mineral properties and property, plant and equipment increased to \$4 million in H1 2012 (write-down of mineral properties) from \$1.9 million in H1 2011 (write-down of property, plant and equipment) as a result of the expropriation of the Company's mineral properties on March 14, 2012 with the Nationalization. Property, plant and equipment was fully written down at December 31, 2011 and there were no any additions during H1 2012.
- General and administrative expenses were \$4.4 million in H1 2012 compared to \$3.5 million in H1 2011. The increase is a result of higher legal and consulting costs in H1 2012 in relation to the Company's dealings with the Nationalization.
- The Company recorded a loss of \$0.5 million on the repatriation of monetary assets from its Venezuelan subsidiaries. The loss concerned the transfer of cash to the corporate head office in Vancouver and the resulting variance in exchange rate transfers.
- Foreign exchange loss of \$0.9 million in H1 2012 compared to a foreign exchange loss of \$2.7 million in H1 2011. Notwithstanding foreign exchange fluctuations, as a result of the Nationalization there were significantly fewer foreign-denominated transactions and balances in Q2 2012 resulting in significantly lower foreign exchange.
- Net loss amounted to \$30.6 million during H1 2012 compared to net loss of \$11.2 million during H1 2011.

2.1 Choco Mine

Results for Q2 2012

- During Q2 2012 the Choco Mine sold Nil gold ounces compared to 13,461 in Q2 2011 for total revenue of \$Nil in Q2 2012 compared to \$22.9 million in Q2 2011.
- During Q2 2012, the Choco Mine mining operating expenses were \$Nil million compared to \$25.7 million in Q2 2011.

Results for H1 2012

- During H1 2012 the Choco Mine sold 2,176 gold ounces compared to 27,417 in H1 2011 for total revenue of \$3.6 million in H1 2012 compared to \$45.3 million in H1 2011.
- During H1 2012, the Choco Mine mining operating expenses were \$12.7 million compared to \$50.3 million in H1 2011.

2.2 Isidora Mine

Results for Q2 2012

- During Q2 2012 the Isidora Mine sold Nil gold ounces compared to 2,514 in Q2 2011 for total revenue of \$Nil and \$3.6 million in H1 2012 and H1 2011, respectively.
- During Q2 2012, the Isidora Mine mining operating expenses were \$Nil compared to \$6.4 million in Q2 2011.

Results for H1 2012

- During H1 2012 the Isidora Mine sold 1,016 gold ounces compared to 6,300 in H1 2011 for total revenue of \$1.3 million and \$9.7 million in H1 2012 and H1 2011, respectively.

- During H1 2012, the Isidora Mine mining operating expenses were \$9.2 million compared to \$11.9 million in H1 2011.

2.3 Exploration and Development

San Rafael El Placer

During 2012 pre-commercial production ore from San Rafael El Placer (“SREP”) was processed at the Choco Mine Mill. During 2012 pre-commercial production revenues were realized for 6,507 ounces of finished gold (\$10.7 million) and correspondingly reduced from mineral properties. The costs to produce these gold ounces at the Choco Mine Mill were added to the expenditures incurred on mineral properties in the exploration, evaluation and development segment which, including these capitalized production costs and a non-cash capitalized loss of \$1.5 million due to the increase in the allowance for doubtful recovery of receivables and prepaid expenses and deposits at SREP, totaled \$14.7 million during 2012, with the net difference of \$4 million being written-off on March 14, 2012, as a result of the Nationalization, to the statement of comprehensive loss as an impairment to mineral properties.

Final Feasibility Study on Expansion of Choco Mine to 20,000 Tonnes per Day

On February 27, 2012 the Company completed a positive feasibility study (the “Study”) on the expansion of the Choco Mine from 5,000 to 20,000 tonnes per day.

The Study was conducted by Micon International Limited in association with Ausenco and Knight Piésold, based on gold resources and reserves from the Choco Mine and the near-by Increible 6 (100% owned) mineral property. The Study demonstrates the viability of the project as proposed, and that expansion of the mine to process 20,000 tonnes per day is warranted.

For full details please read the Company’s news release titled “*Positive Feasibility Study on Expansion of Choco Mine to 20,000 Tonnes per Day Completed*” dated February 27, 2012 and filed on www.sedar.com. It can also be found on the Company’s website www.rusoro.com.

The Company believes the Study will be of significant use in an Arbitration Claim with ICSID against the Venezuelan government in determining the fair value of the Company’s recently expropriated Choco Mine and Increible 6 mineral property.

2.4 Corporate

See “Consolidated Results of Operations” section above for discussion of Q2 2012 and H1 2012 share-based compensation expense, interest on convertible loan, general and administrative expenses and gains and losses recognized on the revaluation of warrants with Canadian dollar exercise prices and on the revaluation of the gold sales contract.

3. 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 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.

Prior to the publication of the Decree on September 16, 2011, the Company exported a portion of its finished gold production 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 production being sold to the CBV. The Company was not able to maximize its export quotas as a result of constant delays from the CBV in granting export permits to the Company. 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.

Effective September 16, 2011, the Decree mandates that 100% of all gold produced in Venezuela be sold to the CBV, effectively terminating the Company's ability to export.

4. SELECTED QUARTERLY INFORMATION

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Revenue \$(000)	-	4,926	22,237	30,034	26,567	28,495	33,497	42,688
Net (loss) profit attributable to equity shareholders of the Company \$(000)	(3,335)	(26,670)	(744,779)	(2,013)	(9,717)	(1,285)	9,083	5,816
Basic and diluted (loss) earnings per share \$	(0.01)	(0.05)	(1.40)	(0.01)	(0.02)	(0.00)	0.02	0.01

The Company has experienced volatility in its results over the eight most recently completed quarters. Revenues from gold sales have been volatile arising from uncertainties in relation to the issuance, interpretation and continuity of the resolutions and exchange agreements described in the "Venezuela Currency Exchange and Gold Sales" section and in subsequent quarters due to volatile and decreasing gold production affected by the Company's deteriorating financial situation in Venezuela and due to the Nationalization impacting revenue of Q4 2011, Q1 2012, and Q2 2012 specifically. Net profit/loss has been volatile due to the volatility of revenue and production levels impacting mining operating expenses over Q4 2011, Q1 2012 and Q2 2012 as well as the impact of impairment adjustments as a result of the expropriation of the Company's mining assets.

5. FINANCIAL POSITION

The Company's assets totaled \$4.7 million as at June 30, 2012 (December 31, 2011: \$27 million). Total assets primarily consisted of \$0.5 million in cash (December 31, 2011: \$3.4 million), \$0.3 million in receivables which is net of an allowance for doubtful recovery of \$17 million (December 31, 2011: \$5.6 million which was net of an allowance for doubtful recovery of \$14.8 million), \$Nil million in inventories (December 31, 2011: \$6.2 million) and \$3.8 million in prepaid expenses and deposits which is net of an allowance for doubtful recovery of \$7.1 million (December 31, 2011: \$11.7 million and with no allowance being netted). A significant portion of the allowances for doubtful recovery of receivables and prepaid expenses and deposits are the result of the Nationalization.

A significant amount of the Company's liabilities, including accounts payable and accrued liabilities of \$87.3 million as at June 30, 2012 (December 31, 2011: \$79.2 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 June 30, 2012.

The Company's current assets less current liabilities (working capital) decreased \$29.8 million since December 31, 2011 to a negative working capital as at June 30, 2012 of \$149.0 million (December 31, 2011: \$119.2 million). This is primarily a result of the Nationalization and the related write-down adjustments to inventories, receivables and prepaid expenses and deposits.

A convertible loan of \$30 million (December 31, 2011: \$30 million), which became due on June 10, 2011, represents the balance of the convertible loan's principal owing at December 31, 2011. The convertible loan was being accreted at an effective interest rate of 21% (contractual rate of 10%) until its due date of June 10, 2011. Since it became due, the defaulted loan continues to incur interest at a new contractual rate of 11% (previously 10%). Upon reaching the maturity date of the loan on June 10, 2011, the Loan convertible option to shares was extinguished unexercised.

The Company did not repay the convertible loan on the June 10, 2011 maturity date and, as at August 28, 2012, the original principal and accrued and unpaid interest of \$30 million and \$0.75 million, respectively, continue to incur interest at 11% since June 10, 2011. As at June 30, 2012, the Loan was still in default and outstanding and carried an amount owing of \$4.3 million in accrued interest. The loan is held in US

dollars and is secured by share pledges over the Company's subsidiaries which prior to the Nationalization held the mining concessions for the Choco Mine and the San Rafael El Placer and Incredible 6 mineral properties, but excluding the Isidora Mine. On June 14, 2012, the convertible loan lenders signed the CSA whereby they agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses. In consideration for the CSA the Lenders were provided a contingent success fee in addition to amounts due and payable under the Loan of 20%. As at June 30, 2012 litigation success was deemed to be indeterminable and \$Nil has been accrued.

On March 14, 2012, as a result of the Nationalization, the Company wrote-off the remaining balances of mineral properties and inventories for \$4.0 million and \$2.4 million respectively, and starting March 14, 2012 the carrying values of property, plant and equipment, mineral properties and inventories are \$Nil with the exception of certain office and computer equipment at the Company's head office with a carrying value of \$0.1 million at June 30, 2012. The Company incurred a loss of \$0.5 million on the repatriation of monetary assets from its Venezuelan subsidiaries. The Company's cash balance of \$0.5 million as at June 30, 2012 was held in bank accounts in which the Company retained full control after the Nationalization.

As a result of the significant asset write-downs done in 2012 and last quarter of 2011, as at both June 30, 2012 and December 31, 2011 the Company presents a shareholder's deficiency rather than equity on the face of its statement of financial position, as the Company's liabilities exceed the Company's assets.

6. LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position decreased \$2.9 million during H1 2012 (\$3.6 million H1 2011). The Company had negative cash flows from operations of \$0.4 million in H1 2012 versus positive cash flows from operations of \$12.4 million in H1 2011. The significant decrease was mainly due to the Nationalization and that the Company's assets and operations reverted to the Venezuelan government.

The decrease in cash outflows from investing activities from \$16.0 million in H1 2011 to \$2.5 million in H1 2012 was primarily the result of the Company not incurring any expenditures on property, plant and equipment offset by somewhat higher expenditure net of proceeds on mineral property during H1 2012 compared to H1 2011.

Under the terms of the Litigation Funding Agreement, the Funder has agreed to assist in the funding of Rusoro's legal costs in relation to the international arbitration proceedings against the Republic of Venezuela (the "Respondent") on a non-recourse basis as well as funding a reasonable amount of corporate costs. Pursuant to the Litigation Funding Agreement, the Company entered into the CSA with significant equityholders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

There are material uncertainties surrounding the Nationalization and related arbitration, including, but not limited to the likelihood of reaching an amicable compensation with the Venezuelan government, participation in any Mixed Enterprise, the success in an arbitration proceedings against the Venezuelan government and the amount, timing and/or form of any compensation or arbitration award.

The Company incurs operating and litigation expenditures in US dollars. Apart from its US-dollar cash balances, the Company also maintains cash in BsF and C\$ to fund short-term operating commitments in those currencies.

Practical restrictions 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.

As at June 30, 2012 the Company's cash balance of \$0.5 million does not include cash held by the Joint Venture and the full balance was held in bank accounts in which the Company retained full control after the Nationalization.

As at August 28, 2012, the Company has \$0.5 million in cash and the \$30 million principal portion of the convertible loan remains outstanding.

7. OUTLOOK

As a result of the Nationalization, the Company's sole recourse has been to file a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") against the government of Venezuela alleging violations of the provisions of the Bilateral Treaty for the Protection of Investments entered between the governments of Canada and Venezuela. The Request for Arbitration was filed on July 17, 2012. In parallel the Company will continue to seek an amicable resolution with the Venezuelan government to reach an agreement for fair compensation to the Company. The compensation must be monetary or include a monetary component that is appropriate to the Company and participation in a Mixed Enterprise to jointly operate with the Venezuelan government mining concessions or projects with terms and conditions that are appropriate to the Company. The Company's objective will be to diligently pursue the Arbitration Claim against the Venezuela government and to reduce the Company's general and administration expenses to a minimum so the Company's cash resources are available to fund the costs of the Arbitration Claim. Additionally the Company's CSA signed on June 14, 2012 resulted in a standstill period, subject to various clauses, with its significant equityholders and creditors for the duration of the Arbitration proceedings and until an arbitration or settlement award is collected.

8. COMMITMENTS AND CONTINGENCIES

As at June 30, 2012, the Company is committed to payments under operating leases for corporate premises and equipment as follows:

	Total
2012	\$11
2013	21
2014	24
2015	24
2016 and thereafter	24
	\$104

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. Based on information currently available, an estimate of financial impact cannot be reasonably made.

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 consolidated 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. Based on the information currently available, estimates of financial impact cannot be reasonably made.

Litigation Funding

Under the terms of the privileged Litigation Funding Agreement, the Company has given certain warranties and covenants to the Funder. In consideration for the provision of arbitration financing, Rusoro has agreed to pay to the Funder a portion of any final settlement of the arbitration claim against the Respondent (the "Funder's Fee"). The Funder's Fee shall only become payable upon a final settlement of the arbitration claim and the value of the Funder's Fee is dependent upon a number of variables including the value of any settlement and the length of time taken to reach a settlement. The agreement also provides that the amount of the Funder's Fee shall not exceed the amount of the aggregate proceeds of the arbitration claim under any circumstances.

In addition to the Litigation Funding Agreement the Company has also provided contingent success fees to select stakeholders in consideration for their discounted services or forgiveness of obligations. As at June 30, 2012 litigation success is deemed to be indeterminable and \$Nil has been accrued.

9. OFF-BALANCE SHEET ARRANGEMENTS

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

10. RELATED PARTY TRANSACTIONS

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

- Included in accounts payable and accrued liabilities is \$466 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 general and administrative expenses are professional fees of \$63 for the six-month period ended June 30, 2012 related to legal services from a law firm in which Jay Kaplowitz, a director of the Company, is a partner.

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

11. DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 28, 2012, the Company has 530,120,623 common shares issued and outstanding and 50,920,000 outstanding and exercisable stock options and 123,750,000 outstanding and exercisable warrants, to acquire an equal amount of common shares.

12. 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, 2013

- 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.

Accounting Standards Issued and Effective January 1, 2015

- 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.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited condensed interim consolidated financial statements as at June 30, 2012 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies have been applied to all periods presented in the unaudited condensed interim consolidated financial statements as at June 30, 2012 and are based on the IFRS that the Company expects to be applicable for its annual consolidated financial statements for the year ending December 31, 2012.

14. 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 was to address the weaknesses identified. As a result of the Nationalization and ceasing operations the internal audit department was eliminated.

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.

15. 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 and receivables owed by a single party.

The Company’s exposure to credit risk on its C\$ and US dollar cash is limited by maintaining these assets with high-credit quality financial institutions. The Company is exposed to the credit risk of Venezuelan banks, which hold cash for the Company’s cash needs in Venezuela. 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 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 June 30, 2012. The amounts disclosed are the contractual undiscounted cash flows.

	2012 \$(000)	2013-2014 \$(000)	Total \$(000)
Accounts payable and accrued liabilities	\$67,042	\$-	\$67,042
Accrual for interest on convertible loan	4,336	-	4,336
Convertible loan	30,000	-	30,000
Accrual for employee termination benefits	15,890	-	15,890
	\$117,268	\$-	\$117,268

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 June 30, 2012, 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 \$Nil and a 1% decrease in interest rates would increase the fair value of the share purchase warrants with foreign currency exercise prices by \$Nil.

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.

There is a currency and exchange controls system in Venezuela. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US dollars out of the country. As at June 30, 2012, the Company holds cash of \$0.4 million (December 31, 2011: \$2.3 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 June 30, 2012		
	25% Increase in the BsF <u>\$(000)</u>	25% Decrease in the BsF <u>\$(000)</u>
Net (loss) profit	(17,441)	13,953

As at June 30, 2012		
	10% Increase in the C\$ <u>\$(000)</u>	10% Decrease in the C\$ <u>\$(000)</u>
Net (loss) profit	(40)	36

16. OTHER RISKS AND UNCERTAINTIES

Gold Price Volatility

Prior to the Nationalization, the value of the Company's mineral properties and property, plant and equipment was 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 were significantly affected by changes in the gold price. If the realized gold price was below the cost of production at the Company's operations for a significant period, the Company would have been required to suspend or terminate production at the affected operation. In addition, the Company may have been 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 have negatively affected the Company's profitability, cash flows and financial position. Accordingly, when the Company was able to produce gold, there was no assurance that the realized gold price would 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 had investigated title to all of its mineral properties for which it held concessions or other mineral leases or licenses, prior to Nationalization the Company could not give any assurance that title to such properties would not be challenged or impugned and could not be certain that it would have valid title to its mining properties. The Company relied on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

Prior to Nationalization, the Company's principal mineral properties and mining rights were 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.

On March 14, 2012, in accordance with the procedures outlined in the Decree, all of the Company's mining concessions and titles expired by force of the Decree and all its assets and operations reverted to the Venezuelan government who took possession and control of the assets and operations in accordance with Venezuelan law becoming the new operator.

There are many material uncertainties surrounding the Nationalization, including, but not limited to, the amount of any compensation to be paid to the Company for its decrease in ownership of its Venezuelan mining assets, either through amicable settlement or agreement with the Venezuelan Government or upon receipt of an arbitration award from ICSID, the timing of receipt of any such compensation, the Company's percentage of ownership in the Mixed Enterprise, if any, and the structure of the transaction. 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.

The Company cannot provide assurances as to the outcome of the Arbitration Claim, which can last a number of years and its cost could be higher than what the Company originally forecasted. Also should the Company be successful in winning an award of compensation to be paid by the Venezuelan government, the Company cannot provide assurances that it would be able to enforce and collect an award of compensation which could hinder the Company's ability to continue as a going concern.

Country Risk

The Company's arbitration activities may be adversely affected by political instability and legal and economic uncertainty in Venezuela where the Company had assets and operations. The risks associated with the Company's Arbitration Claim 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, and taxation. Prior to Nationalization risks associated with the Company's operations may have included 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 arbitration activities, restrict the movement of funds or result in unfavourable compensation for the Nationalization. Prior to Nationalization the Company's mineral properties and mining rights were located in Venezuela.

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. It is unclear how the Nationalization impacted closure and reclamation liabilities for the Company and the Company continues to accrue a decommissioning and restoration liability. Future environmental legislation could cause additional expense, capital expenditures, restrictions, and liabilities 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. Prior to Nationalization the Company 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

Prior to Nationalization, the Company's reported mineral reserves and resources were estimates only. These estimates were imprecise and depended upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may be unreliable. As a result, there could be no assurance that they would have been recovered at the rates estimated or at all. Mineral reserve and resource estimates would 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 would have rendered estimated mineral reserves and resources uneconomic and may have ultimately resulted 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 have adversely affected the Company's profitability in any particular accounting period. If its mineral reserve and resource estimates were incorrect, the Company would 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. Prior to Nationalization, the Company had relied on and in consideration of the arbitration 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. Prior to Nationalization, there could be no assurance that the Company would 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 would be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company were 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 was no assurance that the Company's mineral exploration and exploitation activities would be successful.

Uninsurable Risks

Mineral exploration and exploitation activities and the related environmental regulations and liabilities 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

Prior to the Nationalization, the Company prepared estimates of future production at its operations. Failure to meet these estimates could have adversely affected the Company's profitability, cash flows and financial position. There was no assurance that the Company would achieve its production estimates.

Prior to the Nationalization, the Company's actual production may have varied 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 have resulted 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 could have caused a mineral deposit that had been mined profitably in the past to become unprofitable forcing the Company to cease production. These factors also apply to the Company's potential future operations.

Regulations and Permits

The Company's operating activities were 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 was 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 previous exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could have resulted in changes in legal requirements or in the terms of the Company's permits that could have had a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. As a result of the Nationalization the Company is no longer required to obtain the necessary permits including any renewals thereof. Previously, 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 have resulted 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, the Company's arbitration with Venezuela's government, 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.

17. 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, projects and arbitration proceedings, 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) the exchange rate between the C\$, the BsF and the US dollar being approximately consistent with current levels; (2) certain price assumptions for gold (3) availability and sufficiency of litigation funding to actively pursue Arbitration; (4) corporate overhead costs and litigation spending remain within the Company's expectations; and (5) the CSA remains in effect throughout the Arbitration.

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.