



RUSORO MINING LTD.
Interim Consolidated Financial Statements – June 30, 2010
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

RUSORO MINING LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	June 30, 2010	December 31, 2009
	\$	\$
ASSETS		
Cash	5,484	10,420
Short-term investments	-	3,806
Receivables (Notes 4 and 13)	14,340	3,357
Inventories (Note 5)	35,071	51,366
Prepaid expenses and deposits	9,406	8,088
Current assets	64,301	77,037
Receivables (Note 4)	12,676	13,041
Property, plant and equipment (Notes 6 and 13)	669,608	675,185
Mineral properties (Notes 7 and 13)	274,469	268,794
	1,021,054	1,034,057
LIABILITIES		
Accounts payable and accrued liabilities (Notes 8 and 13)	56,775	29,959
Deferred revenue (Note 9)	6,933	-
Income taxes payable	3,445	2,812
Current portion of convertible loan (Notes 10 and 13)	27,949	57,935
Current liabilities	95,102	90,706
Accrual for termination benefits	-	915
Asset retirement obligations	4,616	3,125
Future income tax liability	350,910	264,405
	450,628	359,151
EQUITY		
Share capital (Notes 11(a) and 13)	736,087	736,087
Equity component of convertible loan (Note 10)	2,366	4,733
Share purchase warrants committed (Note 11(c)(ii))	2,205	-
Contributed surplus (Note 11(d))	125,629	121,674
Accumulated other comprehensive loss (Note 12)	(5,558)	(5,558)
Deficit	(290,964)	(182,238)
Shareholders' equity	569,765	674,698
Non-controlling interest	661	208
	570,426	674,906
	1,021,054	1,034,057

Nature of operations and going concern assumption – Note 1

Commitments and contingencies – Note 18

Subsequent events – Note 21

APPROVED BY THE BOARD:

“Andre Agapov” , Director

Andre Agapov

“Gordon Keep” , Director

Gordon Keep

See accompanying notes to the interim consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30,
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
REVENUES	51,144	11,185	67,487	41,345
COSTS AND EXPENSES				
Mining operating expenses	43,371	5,567	56,908	23,926
Mining amortization	9,415	1,498	12,375	5,879
	52,786	7,065	69,283	29,805
(LOSS) INCOME FROM MINING OPERATIONS	(1,642)	4,120	(1,796)	11,540
General and administrative (Note 13)	2,466	1,500	5,227	3,810
Stock-based compensation (Note 11(b))	167	5,628	339	6,089
Interest on convertible loan	2,396	3,326	5,034	6,593
	5,029	10,454	10,600	16,492
LOSS BEFORE THE UNDERNOTED ITEMS	(6,671)	(6,334)	(12,396)	(4,952)
Foreign exchange loss (gain)	146,825	(634)	105,070	(2,183)
Impairment of mineral properties	-	-	-	174
Litigation and unsuccessful acquisition (Notes 13 and 18(b)(ii))	1	10	7	794
Other expenses (income) (Note 4)	1,916	(53)	2,014	(53)
	148,742	(677)	107,091	(1,268)
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(155,413)	(5,657)	(119,487)	(3,684)
Current income taxes expense	-	6,659	-	10,564
Recovery of future income taxes	(4,156)	(6,158)	(11,214)	(9,237)
	(4,156)	501	(11,214)	1,327
LOSS BEFORE NON-CONTROLLING INTEREST	(151,257)	(6,158)	(108,273)	(5,011)
Non-controlling interest	(105)	(235)	(453)	(839)
NET LOSS	(151,362)	(6,393)	(108,726)	(5,850)
Deficit, beginning of period	(139,602)	(166,988)	(182,238)	(167,531)
DEFICIT, END OF PERIOD	(290,964)	(173,381)	(290,964)	(173,381)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic and diluted	529,846	529,846	529,846	471,825
LOSS PER SHARE				
Basic and diluted loss per share	(0.29)	(0.01)	(0.21)	(0.01)

See accompanying notes to the interim consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30,
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
NET LOSS	(151,362)	(6,393)	(108,726)	(5,850)
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	-	(18,011)	-	(82,898)
COMPREHENSIVE LOSS	<u>(151,362)</u>	<u>(24,404)</u>	<u>(108,726)</u>	<u>(88,748)</u>

See accompanying notes to the interim consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30,
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(151,362)	(6,393)	(108,726)	(5,850)
Items not involving cash				
Amortization	9,415	1,498	12,375	5,879
Stock-based compensation (Note 11(b))	167	5,628	339	6,089
Warrants committed in sale transaction (Note 11(c)(ii))	1,332	-	1,332	-
Accretion of interest on convertible loan (Note 10)	1,019	1,329	2,174	2,618
Unrealized foreign exchange loss (gain)	145,787	(494)	104,797	(1,982)
Impairment of mineral properties	-	-	-	174
Allowance for receivables (Note 4)	1,792	-	1,792	-
Accretion of asset retirement obligations	284	249	560	482
Recovery of future income taxes	(4,156)	(6,158)	(11,214)	(9,237)
Non-controlling interest	105	235	453	839
	<u>4,383</u>	<u>(4,106)</u>	<u>3,882</u>	<u>(988)</u>
Receivables non-current	2,525	4,742	2,166	2,210
Accrual for termination benefits non-current	(1,277)	161	(915)	296
Changes in non-cash working capital items (Note 15)	<u>27,074</u>	<u>(3,068)</u>	<u>23,033</u>	<u>2,984</u>
	<u>32,705</u>	<u>(2,271)</u>	<u>28,166</u>	<u>4,502</u>
INVESTING ACTIVITIES				
Expenditures on mineral properties	(3,020)	(2,130)	(5,080)	(4,934)
Expenditures on property, plant and equipment	(1,197)	(1,893)	(1,928)	(2,437)
(Purchase) Redemption of short-term investments	-	(3,440)	3,806	(7,439)
	<u>(4,217)</u>	<u>(7,463)</u>	<u>(3,202)</u>	<u>(14,810)</u>
FINANCING ACTIVITIES				
Gross proceeds from shares issued in public offering (Note 11(a)(ii))	-	-	-	64,636
Share issue costs (Note 11(a)(ii))	-	-	-	(4,355)
Convertible loan restructuring costs (Note 10)	(38)	-	(38)	-
Convertible loan repayments (Note 10)	(30,000)	-	(30,000)	-
Repayment of note payable	-	(500)	-	(500)
	<u>(30,038)</u>	<u>(500)</u>	<u>(30,038)</u>	<u>59,781</u>
Impact of foreign exchange rate changes on cash	<u>315</u>	<u>(96)</u>	<u>138</u>	<u>(439)</u>
(DECREASE) INCREASE IN CASH	<u>(1,235)</u>	<u>(10,330)</u>	<u>(4,936)</u>	<u>49,034</u>
Cash – beginning of period	6,719	61,609	10,420	2,245
CASH – END OF PERIOD	<u>5,484</u>	<u>51,279</u>	<u>5,484</u>	<u>51,279</u>

Supplemental cash flow information (Note 15)

See accompanying notes to the interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

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

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

The Company currently holds interest in two producing gold mines in Venezuela. It holds a 95% ownership interest in the Choco 10 mine ("the Choco Mine") which was acquired on November 30, 2007 and a 50% ownership interest in the Isidora mine ("the Isidora Mine") which was acquired on December 23, 2008. The Company operates the Isidora Mine under a joint venture agreement with the Venezuelan government (Note 17). The Company also holds various exploration projects and one development project in Venezuela and a single exploration project in Honduras (Note 7).

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

Contingent on the Company's ability to obtain appropriate export permits and to renew export permits upon expiry (Note 21(a)) and/or to obtain sufficient amounts of US Dollars for qualified expenditures at the official exchange rates of BsF 2.60/\$1.00 and BsF 4.30/\$1.00, management believes sufficient funds exist including cash and proceeds from sales of inventory to meet the Company's obligations and for capital asset expenditures to increase production prior to the required debt principal repayment of \$30,000 in June of 2011. This debt principal repayment of \$30,000 in June of 2011 is required to be made by the Company under the loan agreement entered into with a syndicate of private lenders ("the Lenders") in June of 2008 and which was restructured in June of 2010 ("the Loan") (Note 10). Management does not believe the funds described above will be sufficient to make the required debt principal repayment in June of 2011. This is a result of the Company not maintaining gold production at the optimal level as the Company has been unable to make the necessary capital asset expenditures due to lack of ability to export to date and the decision to conserve cash for the loan repayments made in June of 2010.

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

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

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

RUSORO MINING LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial information and they follow the same accounting policies and methods of application as the annual audited consolidated financial statements of the Company for the year ended December 31, 2009, except as discussed in Note 3. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2009, as they do not contain all disclosures required by GAAP for annual financial statements.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company, as at June 30, 2010 and the results of operations and cash flows for all periods presented have been made. The interim results are not necessary indicative of results for a full year.

Basis of Presentation and Principles of Consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. All inter-company balances and transactions have been eliminated on consolidation. The principal subsidiaries of the Company as at June 30, 2010 are as follows:

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

3. CHANGES IN ACCOUNTING POLICIES

In January 2009, the following Canadian Institute of Chartered Accountants (“CICA”) Handbook sections were issued: Section 1582, *Business Combinations* (“Section 1582”), Section 1601, *Consolidations* (“Section 1601”), and Section 1602, *Non-Controlling Interests* (“Section 1602”). Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1601 and Section 1602 establish standards for the preparation of consolidated financial statements and the accounting for non-controlling interests in financial statements that are equivalent to the standards under IFRS. These standards are required for the Company’s fiscal year beginning January 1, 2011. Earlier adoption is permitted which requires all three sections be adopted at the same time. The Company has early adopted these sections effective January 1, 2010.

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Under Section 1582, the definition of a business is expanded, acquisition related costs, other than costs to issue debt or equity securities, of the acquirer, will no longer be capitalized, but rather expensed as incurred and the assets acquired and liabilities assumed are recorded at 100% of fair value even if less than 100% is obtained. Under Section 1602, non-controlling interests are classified as part of equity and net income or loss and total comprehensive income or loss will include the portion attributable to non-controlling interests. The provisions of Section 1602 have been applied prospectively with exception of the presentation and disclosure provisions, which have been applied for all prior periods presented in the financial statements. The presentation and disclosure provisions resulted in the classification of non-controlling interests as a separate component of equity on the balance sheet amounting to \$661 as at June 30, 2010 (December 31, 2009: \$208).

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

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

In October of 2005, the Venezuelan government enacted the Criminal Exchange Law, which imposes sanctions on the exchange of Venezuelan Bolivar Fuerte ("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 aimed to regulate the Swap Market. The Reform of the Criminal Exchange Law effectively closed the Swap Market and therefore the Company is unable to use the Implicit Exchange Rate to translate BsF transactions and balances subsequent to May 17, 2010. On June 9, 2010 the Venezuelan government enacted additional reforms to its exchange control regulations and introduced Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME") a newly regulated foreign exchange system controlled by the Central Bank of Venezuela ("the CBV"). The SITME imposes volume restrictions on the conversion of BsF to US dollars of \$350 per month per Venezuelan entity that meets the SITME requirements. Management is currently evaluating which subsidiaries meet these requirements.

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

RUSORO MINING LTD.
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4. RECEIVABLES

	June 30, 2010	December 31, 2009
	\$	\$
VAT receivable (a)	20,192	12,943
Trade receivable (b)	1,497	-
Receivable from mining contractor (c)	1,260	1,172
Other receivables (d)	3,784	2,079
Receivables from related companies (Note 13)	283	204
Total receivables	<u>27,016</u>	<u>16,398</u>
Non-current VAT receivable (e)	(11,976)	(12,335)
Non-current receivable from mining contractor (f)	(700)	(706)
Non-current receivables	<u>(12,676)</u>	<u>(13,041)</u>
Current receivables	<u>14,340</u>	<u>3,357</u>

- a) VAT receivable relates to value added tax paid in Venezuela that is recoverable from the requisite authorities. VAT receivable includes an allowance for doubtful collection of \$3,137 (December 31, 2009: \$969). During the three-month and six-month periods ended June 30, 2010 the Company recorded an allowance for VAT receivable of \$1,792 (2009: \$nil) in other expenses.
- b) Trade receivable relates to the sale of gold to the CBV.
- c) Receivable from mining contractor relates to the sale of mining-fleet spare-part inventories and certain payroll recoverable from the mining contractor.
- d) Other receivables consists of GST receivable and sundry receivables.
- e) Non-current VAT receivable relates to VAT receivable that management estimates will not be recovered for at least twelve months from the balance sheet date.
- f) Non-current receivable from mining contractor relates to the sale of mining-fleet spare-part inventories and certain payroll recoverable from the mining contractor that management estimates will not be collected for at least twelve months from the balance sheet date.

5. INVENTORIES

	June 30, 2010	December 31, 2009
	\$	\$
Finished gold	18,084	37,858
Gold in process	3,843	2,226
Gold in stockpile	9,265	6,754
Materials and supplies	3,879	4,528
	<u>35,071</u>	<u>51,366</u>

As at June 30, 2010 and December 31, 2009, all inventories were recorded at cost.

RUSORO MINING LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

6. PROPERTY, PLANT, AND EQUIPMENT

	June 30, 2010		
	Cost \$	Accumulated Amortization and Depletion \$	Net Book Value \$
Mining properties	606,057	(13,924)	592,133
Mining plant and equipment	112,532	(40,454)	72,078
Office and computer equipment	382	(170)	212
Construction in progress	5,185	-	5,185
	724,156	(54,548)	669,608

	December 31, 2009		
	Cost \$	Accumulated Amortization and Depletion \$	Net Book Value \$
Mining properties	605,817	(12,101)	593,716
Mining plant and equipment	109,282	(33,812)	75,470
Office and computer equipment	382	(134)	248
Construction in progress	5,751	-	5,751
	721,232	(46,047)	675,185

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

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

	Mining Properties			Property, Plant and Equipment (excluding mining properties) \$	June 30, 2010 \$	December 31, 2009 \$
	Depletable \$	Non- Depletable(*) \$	Total \$			
Choco Mine	53,441	507,291	560,732	65,444	626,176	630,589
Isidora Mine	1,568	29,833	31,401	7,425	38,826	39,991
Other Venezuelan properties	-	-	-	4,394	4,394	4,357
Corporate head office	-	-	-	212	212	248
	55,009	537,124	592,133	77,475	669,608	675,185

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

RUSORO MINING LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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7. MINERAL PROPERTIES

	San Rafael El Placer \$	Increible 6 \$	El Callao \$	Valle Hondo \$	Other Properties \$	Total \$
Balance, December 31, 2008	25,937	61,941	149,223	23,166	15,617	275,884
Exploration and development costs	9,251	954	-	495	22	10,722
Impairment of mineral properties	-	-	(5,087)	-	(5,867)	(10,954)
Unrealized foreign exchange gain	-	-	(6,754)	-	(104)	(6,858)
Balance, December 31, 2009	35,188	62,895	137,382	23,661	9,668	268,794
Exploration and development costs	4,876	268	-	30	501	5,675
Balance, June 30, 2010	40,064	63,163	137,382	23,691	10,169	274,469

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2010 \$	December 31, 2009 \$
Accounts payable	7,415	7,557
Accrued liabilities	43,253	19,571
Accrual for termination benefits	5,479	2,135
Accrual for interest on convertible loan (Note 10)	163	350
Current portion of asset retirement obligations	296	250
Due to related parties (Note 13)	169	96
	<u>56,775</u>	<u>29,959</u>

9. DEFERRED REVENUE

The Company received an advance of \$6,933 related to the future delivery of 6.5 ounces of finished gold. The Company is required to deliver this finished gold prior to January 11, 2011 at a fixed price of the amount advanced of \$6,933. As at June 30, 2010, no finished gold related to this advance has been delivered.

10. CONVERTIBLE LOAN

On June 10, 2008, the Company entered into the Loan to fund the acquisition of El Callao Gold Mining Ltd. and Drake-Bering Holdings B.V. including their wholly-owned subsidiaries Minera Rusoro Venezolana C.A. ("Minera Rusoro") and El Callao Gold Mining Company de Venezuela S.C.S. ("El Callao Gold Mining") from Hecla Mining Company and for general corporate purposes. Under the original terms the Loan had a two-year term, a contractual rate of interest of 10% per annum and is secured by share pledges over the Company's principal assets including the Choco Mine (Note 6) and San Rafael El Placer and Increible 6 mineral properties (Note 7) but excluding the Isidora Mine (Note 6). Under the original terms the lenders had the option, at any time and at their sole discretion, to convert all or part of the outstanding principal of the Loan to common shares of the Company at a conversion price of \$1.07 (subject to adjustment depending on future equity financings and other transactions entered into by the Company). In addition, the Company has granted to the Lenders pro-rata participation in any future equity offerings for the term of the Loan. Under the original terms the Company could repay the Loan at any time by repaying the outstanding principal in full plus an amount equal to the interest that would have been accrued if the Loan was held for the original two-year term.

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

On November 12, 2009, the Company purchased \$20,000 of the principal amount of the Loan and related accrued interest of \$847 for \$17,754 including professional fees.

On June 10, 2010, the Company made a \$17,000 principal payment and restructured the remaining \$43,000 principal portion of the Loan. The restructured terms required the Company to make a second principal payment of \$13,000 including accrued interest at a contractual rate of 10% per annum on or before July 10, 2010 and a final principal payment of \$30,000 ("the Reduced Principal") on or before June 10, 2011. The Reduced Principal bears interest at a contractual rate of 10% per annum and interest is payable quarterly. Based on the restructured terms the conversion price of the Reduced Principal was adjusted to \$0.40 (subject to adjustment depending on future equity financings and other transactions entered into by the Company), the Company committed to the issuance of 30,000 warrants (Note 11(c)(ii)) to the Lenders and the Company can repay the Loan at any time by repaying the outstanding principal in full plus interest accrued to the repayment date. All other terms of the Loan remain unchanged. On June 22, 2010, the Company paid the second principal payment of \$13,000 including related accrued interest.

Loan restructuring costs include \$873 related to the commitment to issue 30,000 warrants (Note 11(c)(ii)) and other costs of \$38. The Loan balance was reduced by the \$1,249 increase in the fair value of the equity component of convertible loan due to the restructuring of the Loan with a corresponding increase in contributed surplus. Equity component of convertible loan of \$2,367 was transferred to contributed surplus due to the extinguishment of the conversion option to shares of the portion of the Loan that was repaid by the principal repayments of \$17,000 on June 10, 2010 and \$13,000 on June 22, 2010. The Reduced Principal is due in June of 2011.

RUSORO MINING LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	\$
Equity component at December 31, 2009	4,733
Extinguishment of conversion option to shares	(2,367)
Equity component at June 30, 2010	<u>2,366</u>
	\$
Liability component at December 31, 2009	57,935
Accretion of interest	2,174
Loan repayments	(30,000)
Increase in fair value of equity component	(1,249)
Loan restructuring costs	(911)
Liability component at June 30, 2010	<u>27,949</u>

11. SHARE CAPITAL

Authorized Share Capital of the Company

Unlimited number of common shares without par value.

(a) Issued Capital

	<u>Number of Shares</u>	<u>Amount \$</u>
Balance, December 31, 2008	390,778	674,556
Shares issued to financial advisor (i)	5,734	1,250
Shares issued in public offering (ii)	133,334	64,636
Share issue costs (ii)	-	(4,355)
Balance, December 31, 2009	<u>529,846</u>	<u>736,087</u>
Balance, June 30, 2010	<u>529,846</u>	<u>736,087</u>

- i. On February 11, 2009, the Company issued 5,734 common shares with a fair value of \$1,250 to its financial advisor for advisory services related to the Company's unsolicited take-over bid (Notes 15 and 18(b)(ii)).
- ii. On March 19, 2009, the Company issued 133,334 common shares at Canadian Dollars ("C\$") 0.60 per common share for gross proceeds of \$64,636 (C\$80,000). A cash commission of \$3,878 equal to 6.0% of the gross proceeds was paid to the underwriter and other fees related to the public offering were \$477 (Note 13).

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(b) Stock Options

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

The following stock options were outstanding at June 30, 2010:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Number of Options Outstanding and Exercisable</u>	<u>Weighted Average Exercise Price</u>
C\$0.60	19,520	C\$0.60	8.17	18,925	C\$0.60
C\$1.11 – C\$1.70	16,208	C\$1.31	7.81	16,208	C\$1.31
C\$2.12 – C\$2.30	7,150	C\$2.19	6.57	6,417	C\$2.20
\$3.00	5,150	\$3.00	6.27	5,150	\$3.00
	48,028	\$1.27	7.61	46,700	\$1.27

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Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price \$
Outstanding, December 31, 2008	35,338	1.61
Issued	16,230	0.50
Expired	(352)	0.99
Forfeited	(70)	0.57
Outstanding, December 31, 2009	51,146	1.32
Forfeited	(3,118)	1.80
Outstanding June 30, 2010	48,028	1.27

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

	2010	2009
Assumptions		
Dividend yield	-	0%
Annualized volatility	-	109%
Risk-free interest rate	-	3.01%
Expected life (years)	-	10.0
Weighted average grant date fair value per option	-	\$0.36

During the three-month and six-month periods ended June 30, 2010, the Company did not amend the exercise price of previously granted stock options. During the three-month and six-month periods ended June 30, 2009, the Company amended the exercise price of 3,610 stock options with original prices ranging from C\$1.31 - \$3.00 to C\$0.60.

(c) Warrants

(i) Warrants Outstanding

The following share purchase warrants were outstanding as at December 31, 2009 and June 30, 2010:

	Number of Warrants	Weighted Average Exercise Price \$
Outstanding, December 31, 2009	108,800	3.88
Outstanding June 30, 2010	108,800	3.83

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The following share purchase warrants were outstanding as at June 30, 2010:

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

(ii) Warrants Committed

	<u>Amount</u> <u>\$</u>
Balance, December 31, 2009	-
Share purchase warrants committed	2,205
Balance, June 30, 2010	<u>2,205</u>

During the three-month and six-month periods ended June 30, 2010, the Company committed to issuing 30,000 warrants to the Lenders as a result of the restructuring of the Loan (Note 10). These warrants were issued August 13, 2010 (Note 21(b)). During the three-month and six-month periods ended June 30, 2010, the Company committed to issuing 49,833 warrants which are still subject to regulatory approval to a gold buyer as an inducement related to the sale of 12.2 ounces of finished gold. Share purchase warrants committed transactions are summarized as follows:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u> <u>\$</u>
Committed, December 31, 2009	-	-
Committed	79,833	.39
Committed, June 30, 2010	<u>79,833</u>	<u>.38</u>

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

	<u>2010</u>	<u>2009</u>
Assumptions		
Dividend yield	0%	-
Annualized volatility	57%	-
Risk-free interest rate	1.81% – 1.82%	-
Expected life (years)	1.4 – 1.6	-
Weighted average fair value per warrant on date committed	\$0.03	-

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The following share purchase warrants were committed as at June 30, 2010:

<u>Number of Warrants Committed</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
49,833	C\$0.40	November 10, 2011
30,000	C\$0.40	January 10, 2012
<u>79,833</u>		

(d) Contributed Surplus

	<u>Amount</u> \$
Balance, December 31, 2008	114,807
Stock-based compensation	6,867
Balance, December 31, 2009	<u>121,674</u>
Stock-based compensation	339
Extinguishment of conversion option to shares (Note 10)	2,367
Increase in fair value of equity component of the Loan (Note 10)	1,249
Balance, June 30, 2010	<u>125,629</u>

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss are as follows:

	<u>June 30, 2010</u> \$	<u>December 31, 2009</u> \$
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	<u>(5,558)</u>	<u>(5,558)</u>

13. RELATED PARTY TRANSACTIONS

- a) Included in receivables (Note 4) are amounts owed from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively of \$283 (December 31, 2009: \$204). These amounts are unsecured and non-interest bearing with no set terms of repayment.
- b) Included in amounts capitalized as property, plant and equipment is \$Nil (December 31, 2009: \$1,094) and included in amounts capitalized as mineral properties is \$108 (December 31, 2009: \$380) related to the provision of technical and geological services and machinery rental from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively.
- c) On February 20, 2009, the Company issued a promissory note to a director/officer of the Company for \$500 related to an advance for the purchase of a plant for the treatment of diamonds. The promissory note was unsecured, non-interest bearing and repayable at a time agreeable to the Company and the director/officer. On May 19, 2009, the Company repaid the promissory note.
- d) Included in accounts payable and accrued liabilities (Note 8) are amounts due to companies which a director/officer of the Company and a director of the Company are an officer and a director, respectively and to a law firm of which a director of the Company is a partner of \$169 (December 31, 2009: \$96). These amounts are unsecured, due on demand and non-interest bearing.

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- e) Included in general and administrative expenses is \$Nil (2009: \$Nil) for the three-month period and \$Nil (2009: \$34) for the six-month period ended June 30, 2010 related to the cost of running the Company's office of representation in Moscow from a company of which a director/officer of the Company has significant influence and \$27 (2009: \$19) for the three-month period and \$55 (2009: \$47) for the six-month period ended June 30, 2010 related to the rental of the Caracas office from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively.
- f) Included in convertible loan (Note 10) is financing costs of \$22 (December 31, 2009: \$Nil), included in share capital (Note 11(a)(ii)) is share issuance costs of \$Nil (December 31, 2009: \$23), included in general and administrative expenses is \$48 (2009: \$46) for the three-month period and \$87 (2009: \$66) for the six-month period ended June 30, 2010 and included in litigation and unsuccessful acquisition costs is \$Nil (2009: \$4) for the three-month period and \$Nil (2009: \$190) for the six-month period ended June 30, 2010 related to the provision of legal services which were paid to a law firm of which a director of the Company is a partner.

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

14. CAPITAL MANAGEMENT DISCLOSURES

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

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

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

The Company is not subject to any externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the six-month period ended June 30, 2010.

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15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
CHANGES IN NON-CASH WORKING CAPITAL ITEMS				
Receivables	(6,725)	1,116	(7,056)	(798)
Inventories	20,244	(9,446)	11,585	(6,024)
Prepaid expenses and deposits	1,016	4,131	(1,318)	3,414
Accounts payable and accrued liabilities	5,606	(7,532)	12,889	(5,384)
Deferred revenue	6,933	3,326	6,933	3,326
Income taxes payable	-	5,337	-	8,450
	<u>27,074</u>	<u>(3,068)</u>	<u>23,033</u>	<u>2,984</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Accounts payable and accrued liabilities – Expenditures on mineral properties	165	(1,604)	(61)	(2,161)
Accounts payable and accrued liabilities – Expenditures on property, plant and equipment	463	(457)	758	80
Amortization capitalized – Mineral properties	350	815	656	1,080
Stock-based compensation capitalized – Mineral Properties	-	13	-	37
Shares issued to financial advisor (Note 11(a)(i))	-	-	-	1,250
Warrants committed in Loan restructuring (Note 10)	873	-	873	-

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS				
Interest paid	3,043	4,000	3,043	4,000
Taxes paid	-	1,387	-	1,887

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16. SEGMENTED DISCLOSURE

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

	Choco Mine Three Months Ended June 30, 2010 \$	Isidora Mine Three Months Ended June 30, 2010 \$	Exploration and Development Three Months Ended June 30, 2010 \$	Corporate Three Months Ended June 30, 2010 \$	Total Three Months Ended June 30, 2010 \$
Revenues	45,137	6,007	-	-	51,144
Mining operating expenses	(38,517)	(4,854)	-	-	(43,371)
Mining amortization	(8,579)	(836)	-	-	(9,415)
General and administrative	-	-	(502)	(1,964)	(2,466)
Stock-based compensation	-	-	-	(167)	(167)
Interest on convertible loan	-	-	-	(2,396)	(2,396)
Foreign exchange loss	(105,034)	(10,441)	(31,309)	(41)	(146,825)
Litigation and unsuccessful acquisition	-	-	-	(1)	(1)
Other (expenses) income	(1,792)	-	(127)	3	(1,916)
Income tax recovery	3,549	607	-	-	4,156
Non-controlling interest	(105)	-	-	-	(105)
Net loss	<u>(105,341)</u>	<u>(9,517)</u>	<u>(31,938)</u>	<u>(4,566)</u>	<u>(151,362)</u>
Capital asset expenditures	<u>526</u>	<u>44</u>	<u>3,647</u>	<u>-</u>	<u>4,217</u>

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	Choco Mine Three Months Ended June 30, 2009 \$	Isidora Mine Three Months Ended June 30, 2009 \$	Exploration and Development Three Months Ended June 30, 2009 \$	Corporate Three Months Ended June 30, 2009 \$	Total Three Months Ended June 30, 2009 \$
Revenues	9,281	1,904	-	-	11,185
Mining operating expenses	(4,478)	(1,089)	-	-	(5,567)
Mining amortization	(1,174)	(324)	-	-	(1,498)
General and administrative	-	-	(382)	(1,118)	(1,500)
Stock-based compensation	-	-	-	(5,628)	(5,628)
Interest on convertible loan	-	-	-	(3,326)	(3,326)
Foreign exchange gain (loss)	512	(12)	(168)	302	634
Litigation and unsuccessful acquisition	-	-	-	(10)	(10)
Other income	-	-	-	53	53
Income tax expense	(127)	(374)	-	-	(501)
Non-controlling interest	(235)	-	-	-	(235)
Net income (loss)	<u>3,779</u>	<u>105</u>	<u>(550)</u>	<u>(9,727)</u>	<u>(6,393)</u>
Capital asset expenditures	<u>1,638</u>	<u>249</u>	<u>2,130</u>	<u>6</u>	<u>4,023</u>

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	Choco Mine Six Months Ended June 30, 2010 \$	Isidora Mine Six Months Ended June 30, 2010 \$	Exploration and Development Six Months Ended June 30, 2010 \$	Corporate Six Months Ended June 30, 2010 \$	Total Six Months Ended June 30, 2010 \$
Revenues	60,054	7,433	-	-	67,487
Mining operating expenses	(50,716)	(6,192)	-	-	(56,908)
Mining amortization	(11,271)	(1,104)	-	-	(12,375)
General and administrative	-	-	(926)	(4,301)	(5,227)
Stock-based compensation	-	-	-	(339)	(339)
Interest on convertible loan	-	-	-	(5,034)	(5,034)
Foreign exchange (loss) gain	(75,346)	(7,328)	(22,713)	317	(105,070)
Litigation and unsuccessful acquisition	-	-	-	(7)	(7)
Other (expenses) income	(1,792)	-	(229)	7	(2,014)
Income tax Recovery	10,496	718	-	-	11,214
Non-controlling interest	(453)	-	-	-	(453)
Net loss	<u>(69,028)</u>	<u>(6,473)</u>	<u>(23,868)</u>	<u>(9,357)</u>	<u>(108,726)</u>
Capital asset expenditures	<u>1,179</u>	<u>56</u>	<u>5,773</u>	<u>-</u>	<u>7,008</u>

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	Choco Mine Six Months Ended June 30, 2009	Isidora Mine Six Months Ended June 30, 2009	Exploration and Development Six Months Ended June 30, 2009	Corporate Six Months Ended June 30, 2009	Total Six Months Ended June 30, 2009
	\$	\$	\$	\$	\$
Revenues	34,791	6,554	-	-	41,345
Mining operating expenses	(17,601)	(6,325)	-	-	(23,926)
Mining amortization	(4,911)	(968)	-	-	(5,879)
General and administrative	-	-	(773)	(3,037)	(3,810)
Stock-based compensation	-	-	-	(6,089)	(6,089)
Interest on convertible loan	-	-	-	(6,593)	(6,593)
Foreign exchange gain (loss)	715	(12)	983	497	2,183
Impairment of mineral properties	-	-	(174)	-	(174)
Litigation and unsuccessful acquisition	-	-	-	(794)	(794)
Other income	-	-	-	53	53
Income tax (expense) recovery	(1,691)	364	-	-	(1,327)
Non-controlling interest	(839)	-	-	-	(839)
Net income (loss)	<u>10,464</u>	<u>(387)</u>	<u>36</u>	<u>(15,963)</u>	<u>(5,850)</u>
Capital asset expenditures	<u>1,693</u>	<u>738</u>	<u>4,934</u>	<u>6</u>	<u>7,371</u>

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In the three and six months ended June 30, 2010 and June 30, 2009, all revenue was generated in Venezuela.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Customer A	36,515	-	50,209	-
Customer B	13,593	11,185	15,557	21,264
Customer C	-	-	-	11,993
Customer D	-	-	-	4,376

The Company's geographic segment information is as follows:

	Choco Mine June 30, 2010	Isidora Mine June 30, 2010	Exploration and Development June 30, 2010	Corporate June 30, 2010	Total June 30, 2010
	\$	\$	\$	\$	\$
Assets					
Current assets	43,847	13,892	5,196	1,366	64,301
Receivables non-current	9,651	-	3,025	-	12,676
Property, plant and equipment	626,176	38,826	4,394	212	669,608
Mineral properties	-	-	274,469	-	274,469
	<u>679,674</u>	<u>52,718</u>	<u>287,084</u>	<u>1,578</u>	<u>1,021,054</u>

	Choco Mine December 31, 2009	Isidora Mine December 31, 2009	Exploration and Development December 31, 2009	Corporate December 31, 2009	Total December 31, 2009
	\$	\$	\$	\$	\$
Assets					
Current assets	47,901	11,616	3,867	13,653	77,037
Receivables non-current	11,110	-	1,931	-	13,041
Property, plant and equipment	630,589	39,991	4,357	248	675,185
Mineral properties	-	-	268,794	-	268,794
	<u>689,600</u>	<u>51,607</u>	<u>278,949</u>	<u>13,901</u>	<u>1,034,057</u>

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17. JOINT VENTURE INTEREST

On July 4, 2008, the Company entered into an agreement (“the Mixed Enterprise Agreement”) with MIBAM to create a mixed enterprise. Pursuant to the Mixed Enterprise Agreement, Minera Venrus C.A. (“Venrus C.A.”), a Venezuelan corporation was incorporated on December 23, 2008, and is 50% owned by the Company and 50% owned by Empresa de Producción Social Minera Nacional, C.A. (a Venezuelan government entity). The Company conducts a portion of its business through this joint venture under which the joint venture participants are bound by the articles of incorporation of Venrus C.A. The Company records its 50% proportionate share of assets, liabilities, revenues, and operating costs of the joint venture.

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

	June 30, 2010	December 31, 2009
	\$	\$
Assets		
Current assets	13,892	12,081
Property, plant and equipment	38,826	39,991
Mineral properties	184	184
	52,902	52,256
Liabilities		
Current liabilities	9,324	5,932
Other long-term liabilities	1,467	1,587
Future income tax liability	16,401	12,554
	27,192	20,073

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	6,007	1,904	7,433	6,554
Expenses	(5,083)	(1,787)	(6,578)	(6,929)
Foreign exchange loss	(10,441)	(12)	(7,328)	(12)
Net (loss) income	(9,517)	105	(6,473)	(387)
Cash Flows (Outflows)				
Operating activities	1,528	719	1,435	2,312
Investing activities	(44)	(196)	(56)	(818)
Financing activities	-	-	-	-
Increase in cash	1,484	523	1,379	1,494

18. COMMITMENTS AND CONTINGENCIES

(a) Commitments

At June 30, 2010, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for explosives, community relations, security, consulting and other services as follows:

	Total \$
2010	2,917
2011	3,515
2012	3,458
2013	3,458
2014 and Thereafter	18,692
	<u>32,040</u>

(b) Contingencies

(i) Central Bank of Venezuela Resolutions and Exchange Agreements

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 no interest or less than 50% interest, 70% of gold produced in the country in each calendar quarter was required to be allocated to the domestic market, of which at least 60% was required to be offered for sale to the CBV and up to 10% could 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, at least 50% of the gold produced in the country in each calendar quarter was required to be allocated to the domestic market of which 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 (Note 21(a)) which 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 ("the Export Portion") 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.

Exports of gold are subject to foreign currency exchange control regulations in Venezuela which require that the proceeds from gold exports collected in a currency other than BsF must be exchanged for BsF with the CBV at the official rate (BsF 4.30/\$1.00 subsequent to January 11, 2010 and BsF 2.15/\$1.00 prior to this date). The CBV and the Ministry of Finance passed Exchange Agreement No. 12 during 2009 which provided more flexibility for companies in which the Venezuelan State has an interest of 50% or greater as they can use the currency received from gold exports collected in a currency other than BsF to make certain direct payments in foreign currency. Companies in which the Venezuelan State has no interest or less than 50% interest, were not covered by Exchange Agreement No. 12.

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On July 15, 2010 the CBV and Ministry of Finance passed an updated Exchange Agreement No. 12 which became effective August 12, 2010 (Note 21(a)). This updated Exchange Agreement No. 12 which mandates that companies in which the Venezuelan State has less than a 50% interest, 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.

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

(ii) Gold Reserve Lawsuit

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

In December 2008 Gold Reserve claimed general damages of \$500,000 and punitive damages of \$50,000 related to an alleged breach of confidence and trespass related to Gold Reserve's property in Venezuela. In February 2009 the Ontario Superior Court of Justice granted Gold Reserve's injunction application by which the Company and Endeavour Financial International Corporation were restrained from making any unsolicited takeover bid for Gold Reserve. The Company denies the allegations made against it and has served a statement of defense and counterclaim claiming \$102,500 in respect of losses the Company has sustained as a result of the injunction's issuance.

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

(iii) Non-Compliance

During the three-month period ended June 30, 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 \$15,000 and/or denial of the Company's ability to generate revenues. Management is currently evaluating alternative actions in order to remediate this non-compliance. No amount has been accrued in these financial statements in connection with this matter since the outcome cannot be determined at this time.

(iv) Other Matters

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

19. FINANCIAL INSTRUMENTS

(a) Financial Assets and Liabilities

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

The carrying amounts of cash, short term investments, receivables, accounts payable and accrued liabilities and accrual for termination benefits are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. Management reviewed all significant financial instruments held by the Company and determined that no significant differences between fair value and carrying value existed as at June 30, 2010, except for the liability component of the convertible loan which has a fair value of \$27,708 (December 31, 2009: \$58,403).

CICA Handbook Section 3862, *Financial Instruments – Disclosures* establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values. The Company's financial instruments at June 30, 2010 and December 31, 2009 classified as "Level One – Quoted prices in active markets" is cash. Short-term investments at December 31, 2009 are classified as "Level Two – Inputs other than quoted prices that are observable for the assets and liabilities either directly or indirectly".

(b) Financial Instrument Risk Exposure

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

Credit Risk

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

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

Liquidity Risk

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

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The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations and accessing capital markets (Note 1). The table below provides a summary of the contractual obligations and payments related to financial liabilities included in the consolidated balance sheet as at June 30, 2010. The amounts disclosed are the contractual undiscounted cash flows.

	2010 \$	2011-2012 \$	Total \$
Accounts payable and accrued liabilities	56,612	-	56,612
Interest on convertible loan	1,500	1,500	3,000
Convertible loan	-	30,000	30,000
	<u>58,112</u>	<u>31,500</u>	<u>89,612</u>

Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at June 30, 2010, a 1% increase in interest rates would decrease the fair value of convertible loan by \$223 and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$227.

(ii) Currency Risk

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

The Company's Venezuelan operations and cash holdings are currently subject to currency and exchange controls. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US Dollars out of the country including for US Dollar operating and capital expenditures. As at June 30, 2010, the Company holds cash of \$4,176 (December 31, 2009: \$667) in BsF.

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

	As at June 30, 2010	
	25% Increase in the BsF US\$	25% Decrease in the BsF US\$
Net earnings	(6,410)	5,128

	As at June 30, 2010	
	10% Increase in the C\$ US\$	10% Decrease in the C\$ US\$
Net earnings	40	(37)

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENTS

- (a) 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 as described in Note 18(b)(i). Resolution No. 10-07-01 and the updated Exchange Agreement No. 12 became effective August 12, 2010.
- (b) On August 13, 2010 the Company issued 30,000 warrants to the Lenders as a result of the restructuring of the Loan (Note 11(c)(ii)). These warrants were recorded as share purchase warrants committed at June 30, 2010.