

This Management's Discussion and Analysis ("MD&A") for Rusoro Mining Ltd. ("the Company") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three months ended June 30, 2010 ("Q2 2010") and six months ended June 30, 2010 ("6 Months 2010") and related notes thereto as well as the annual audited consolidated financial statements of the Company and related notes thereto and the related annual MD&A for the year ended December 31, 2009. 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 in accordance with Canadian generally accepted accounting principles ("GAAP"). The effective date of this MD&A is August 27, 2010. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.

Mr. Gregory Smith, P.Geo., the Vice-President of Exploration of the Company, is a "qualified Person" as defined in National Instrument 43-101 ("NI 43-101"), and is responsible for the accuracy of the scientific and technical information contained in the MD&A. Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Corporate Development Highlights

The Company's highlights for Q2 2010 were:

- Cash cost per ounce sold of \$649 (Q2 2009: \$322). Expected fiscal 2010 cash cost per ounce sold of **\$831** per "Outlook" section from the previously reported \$613. Significant factors for this increase include the Company mining a greater portion of hard rock (fresh unoxidized ore) at the Choco Mine and the change in the Venezuelan Bolivar Fuerte ("the BsF")/US Dollar exchange rate used for translation as described in the "Outlook" section. As a result of the change in the BsF/US Dollar exchange rate the Company expects revenues per ounce for the second half of 2010 to approximate the average spot gold price.
- Gold production of 25,579 ounces of finished gold (doré form) (Q2 2009: 48,523 ounces) and gold sold of 66,551 ounces (Q2 2009: 18,484 ounces). Expected 2010 gold production guidance of 110,000 ounces reduced from 142,000 ounces per "Outlook" section.
- Completion of a pre-feasibility study ("the Pre-Feasibility Study") and NI 43-101 technical report ("the Technical Report") on the San Rafael El Placer ("SREP") project including a mine plan for the existing indicated resources resulting in a probable reserve of 1,157,000 tonnes grading 10.1 g/t gold (375,700 ounces). At a gold price of \$950/oz, the Pre-Feasibility Study estimates the net present value (8% discount) to be \$28.2 million with an after-tax internal rate of return of 30%. The results were reported in a news release dated May 11, 2010 and the news release, Technical Report and Pre-Feasibility Study are available on [www.sedar.com](http://www.sedar.com).
- Repayment of \$30 million of the convertible debt principal and refinancing the remaining \$30 million principal until June of 2011.
- The company recorded a foreign exchange loss of \$147 million. \$146 million of this foreign exchange loss is unrealized and mainly relates to the Company's future income tax liability. The future income tax liability represents the non-deductibility of certain expenses which will be unable to be deducted in calculating statutory income taxes payable in future periods as described in the "Consolidated Results of Operations" section.
- As at June 30, 2010 gold inventories comprise 20,330 ounces of finished gold, 4,427 ounces of gold in process and 22,991 ounces of gold in stockpile. From July 1, 2010 to August 27, 2010 the Company has sold 16,147 ounces of finished gold which was all sold to the Central Bank of Venezuela ("the CBV"). Unsold finished gold as at August 27, 2010 totalled 21,045 ounces.

The Company's highlights subsequent to Q2 2010 were:

- In July 2010 an updated resource estimate ("the Updated Estimate") was released for the Choco 10 gold mine ("the Choco Mine") resulting in a 78% increase in measured and indicated ounces to 8.3 million ounces of gold with an additional 2.8 million ounces of gold inferred. The Updated Estimate was prepared by D. Makepeace, P.Eng. senior geologist for the independent consulting firm Micon International Limited. The results were reported in a news release dated July 6, 2010 and the technical information on the Updated Estimate is detailed in a NI-43-101 compliant technical report titled "Technical Report on the Mineral Resources of the Choco 10 Deposits, Bolivar State, Venezuela" dated August 18, 2010 both of which are available on [www.sedar.com](http://www.sedar.com).
- CBV Resolution No. 10-07-01 and an updated Exchange Agreement No. 12 became effective August 12, 2010. This resolution increases the portion of gold the Company is allocated to export contingent on obtaining export permits and the updated Exchange Agreement No. 12 provides greater flexibility to use certain proceeds from gold exports to make certain direct payment in foreign currency. Further details on this resolution and the updated exchange agreement are provided in the "Venezuelan Currency Exchange and Gold Sales" section.

### Overview of the Company

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

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

### Consolidated Results of Operations

Results for Q2 2010:

- During Q2 2010 the Company recorded a net loss of \$151.4 million compared to a net loss of \$6.4 million in the three months ended June 30, 2009 ("Q2 2009") significantly as a result of an unrealized foreign exchange loss described below.
- Revenue increased to \$51.1 million (66,551 ounces sold) in Q2 2010 from \$11.2 million (18,484 ounces sold) in Q2 2009 as the Company sold a substantial portion of its finished gold inventory in Q2 2010 to generate funds for convertible debt repayments and due to an increase in average realized gold price to \$768/ounce in Q2 2010 from \$681/ounce in Q2 2009 (adjusted for the change in computation of foreign currency conversion rate below).
- Mining operating expenses and mining amortization increased to \$43.4 million and \$9.4 million respectively in Q2 2010 from \$5.6 million and \$1.5 million in Q2 2009. This increase is primarily due to the increase in ounces sold and due to the lack of availability of certain mining equipment due to delayed capital asset expenditures at the Choco Mine, selling ounces mined from areas of the Choco Mine with an increased portion of hard rock and lower grade in Q2 2010 compared to Q2 2009 and due to work stoppages and mining fleet availability issues at the Isidora Mine during Q2 2010.
- Stock-based compensation decreased to \$0.2 million in Q2 2010 from \$5.6 million in Q2 2009 as the Company issued fully vested stock options and re-priced certain stock options in Q2 2009.

- Foreign exchange loss was \$146.8 million (\$145.8 million unrealized) in Q2 2010 compared to a foreign exchange gain of \$0.6 million in Q2 2009. Certain subsidiaries which were translated using the current rate method in Q2 2009 have been translated using the temporal method in Q2 2010 as described in the "Changes in Accounting Policies" section. As a result any related foreign exchange gain/loss is recorded in the consolidated statement of operations in Q2 2010 whereas in Q2 2009 this foreign exchange gain/loss was recorded in accumulated comprehensive income/loss. Due to the change in rate used for translation subsequent to May 17, 2010 as discussed in the "Changes in Accounting Policies" section the Company's future income tax liability increased significantly with a corresponding unrealized foreign exchange loss. This was the significant component in the foreign exchange loss in the Q2 2010 consolidated statement of operations and impacted the Choco Mine, Isidora Mine and Exploration and Development segments described below.
- Income tax recovery was \$4.2 million in Q2 2010 compared to an income tax expense of \$0.5 million in Q2 2009. This change is primarily due to the decreased results at the Choco Mine as described in the Choco Mine results below.

Results for the 6 Months 2010:

- During the 6 months 2010 the Company recorded a net loss of \$108.7 million compared to a net loss of \$5.9 million during the six months ended June 30, 2009 ("6 Months 2009") significantly as a result of an unrealized foreign exchange loss described below.
- Revenue increased to \$67.5 million (89,311 ounces sold) for the 6 Months 2010 from \$41.3 million (59,116 ounces sold) in the 6 Months 2009 as the Company sold a substantial portion of its finished gold inventory in the 6 Months 2010 to generate funds for convertible debt repayments and due to an increase in average realized gold price to \$756/ounce in the 6 Months 2010 from \$699/ounce in the 6 months 2009.
- Mining operating expenses and mining amortization increased to \$56.9 million and \$12.4 million respectively in the 6 Months 2010 from \$23.9 million and \$5.9 million in the 6 Months 2009. This increase is primarily due to the increase in ounces sold and due to higher costs as discussed in the results for Q2 2010 described above.
- Stock-based compensation decreased to \$0.3 million in the 6 Months 2010 from \$6.1 million in the 6 Months 2009 due to issuing fully vested stock options and re-pricing certain stock options in Q2 2009 described above.
- Foreign exchange loss was \$105.1 million in the 6 Months 2010 compared to a foreign exchange gain of \$2.2 million in the 6 Months 2009. This is due to the impact of changes in the translation method and the exchange rate used for translation which increased the Company's future income tax liability with a corresponding unrealized foreign exchange loss as discussed in the results for Q2 2010 above.
- Income tax recovery was \$11.2 million in the 6 Months 2010 compared to an income tax expense of \$1.3 million in the 6 Months 2009. This change is primarily due to the decreased results at the Choco Mine and tax deductions received due to the modification of the BsF on January 11, 2010 as discussed in the "Venezuelan Currency Exchange and Gold Sales" section. These tax deductions reduced income tax expense and reduced future income tax liabilities with a corresponding future income tax recovery.

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

	3 Months Ended June 30, 2010			3 Months Ended June 30, 2009		
	Choco	Isidora	Total	Choco	Isidora	Total
Ore tonnes mined ('000 t)	420	6	426	623	8	631
Ore tonnes milled ('000 t)	492	10	502	548	11	559
Average grade (g/t)	1.61	16.31	1.90	2.38	21.56	2.76
Average recovery rate (%)	93%	90 %	92%	93%	90%	93%
Gold produced (ounces)	21,664	3,915	25,579	40,739	7,784	48,523
Total gold sold (ounces)	60,162	6,389	66,551	15,348	3,136	18,484
Total mining operating expenses \$(000)	\$38,517	\$4,854	\$43,371	\$4,478	\$1,089	\$5,567
- asset retirement obligations accretion \$(000)	(\$119)	(\$67)	(\$186)	(\$120)	(\$70)	(\$190)
- adjustment to foreign currency conversion rate \$(000) <sup>(1)</sup>	-	-	-	\$451	\$127	\$578
Total cash costs \$(000) <sup>(3)</sup>	\$38,398	\$4,787	\$43,185	\$4,809	\$1,146	\$5,955
Total cash costs per ounce sold \$ <sup>(4)</sup>	\$638	\$749	\$649	\$313	\$365	\$322
Average spot gold price \$	n/a	n/a	\$1,196	n/a	n/a	\$922
Average realized gold price (\$) <sup>(5)</sup>	\$750	\$940	\$768	\$605	\$607	\$605 <sup>(1)</sup>
Official exchange rate (BsF to US Dollar) <sup>(6)</sup>	n/a	n/a	2.60/4.30	n/a	n/a	2.15

	6 Months Ended June 30, 2010			6 Months Ended June 30, 2009		
	Choco	Isidora	Total	Choco	Isidora	Total
Ore tonnes mined ('000 t)	816	12	828	1,268	17	1,285
Ore tonnes milled ('000 t)	863	14	877	1,121	18	1,139
Average grade (g/t)	1.86	17.50	2.11	2.17	22.50	2.49
Average recovery rate (%)	93%	90%	93%	91%	90%	91%
Gold produced (ounces)	46,806	6,759	53,565	74,468	13,558	88,026
Total gold sold (ounces)	80,983	8,328	89,311	49,622	9,494	59,116
Total mining operating expenses \$(000)	\$50,716	\$6,192	\$56,908	\$17,601	\$6,325	\$23,926
- asset retirement obligations accretion \$(000)	(\$239)	(\$133)	(\$372)	(\$245)	(\$124)	(\$369)
- fair value differential of inventory acquired \$(000) <sup>(2)</sup>	-	-	-	-	(\$2,813)	(\$2,813)
Total cash costs \$(000) <sup>(3)</sup>	\$50,477	\$6,059	\$56,536	\$17,356	\$3,388	\$20,744
Total cash costs per ounce sold \$ <sup>(4)</sup>	\$623	\$728	\$633	\$350	\$357	\$351
Average spot gold price \$	n/a	n/a	\$1,152	n/a	n/a	\$915
Average realized gold price (\$) <sup>(5)</sup>	\$742	\$893	\$756	\$701	\$690	\$699
Official exchange rate (BsF to US Dollar) <sup>(6)</sup>	n/a	n/a	2.60/4.30	n/a	n/a	2.15

The following notes are applicable to the above two tables:

- 1) Revenue in Q2 2009 was negatively impacted by \$1.4 million and mining operating expenses was positively impacted by \$0.6 million due to a change in the computation of the foreign currency conversion rate applied to revenue and mining operating expenses. Excluding the effect in revenue of the change in method mentioned above, the average realized gold price for the three months ended June 30, 2009 is \$681
- 2) In calculating cash costs per ounce sold the Company has excluded the difference between the book value and fair value of inventory acquired at the date of acquisition of the 50% interest in the Isidora Mine.
- 3) Total cash costs used in the calculation of cash costs per ounce is calculated as mining operating expenses from the consolidated statement of operations excluding accretion expense related to the asset retirement obligations and expense of the fair value differential between the book value and fair value of inventory acquired at the date of acquisition of the 50% interest in the Isidora Mine.
- 4) Cash costs per ounce sold is a non-GAAP measure. Total cash costs per ounce sold as shown above is calculated by dividing the total cash costs by the gold ounces sold during the period. Cash costs per ounce sold includes all expenditures related to the mine such as mining, processing, administration, royalties and production taxes but excludes reclamation, capital and exploration expenditures, the adjustment to the foreign currency conversion rate and the fair value differential between the book value and fair value of inventory acquired at the date of acquisition of the 50% interest in the Isidora Mine.
- 5) Average realized gold price for gold sold to the CBV and to domestic private buyers is impacted by factors described in the Choco Mine and Isidora Mine results below.
- 6) See "Venezuelan Currency Exchange and Gold Sales" section.

## Choco Mine

### Results for Q2 2010:

- During Q2 2010 the Choco Mine produced 21,664 ounces compared to 40,739 ounces in Q2 2009. This decrease was due to a decrease in tonnes milled and average grade to 0.49 million tonnes and 1.61 g/t respectively in Q2 2010 from 0.55 million tonnes and 2.38 g/t in Q2 2009.
- As the Choco Mine mill is designed for 5,000 tonnes per day of hard rock, tonnes milled decreased in Q2 2010 as the Company mined a greater portion of hard rock in Q2 2010 compared to Q2 2009 which decreased throughput at the Choco Mine mill. The decrease in average grade is a result of mining lower grade areas of the Choco Mine and due to lack of availability of certain mining equipment due to delayed capital asset expenditures.
- Ounces sold increased to 60,162 ounces in Q2 2010 from 15,348 ounces in Q2 2009 to fund convertible debt repayments as described previously. Revenue per ounce increased to \$750/ounce in Q2 2010 from \$681/ounce in Q2 2009 (adjusted for the change in computation of foreign currency rated described in the "Consolidated Results of Operations" section).
- During Q2 2010 the majority of gold sales were made to the CBV with payment received in BsF as described in the "Venezuelan Currency Exchange and Gold Sales" section. As the Implicit Exchange Rate (see definition in the "Venezuelan Currency Exchange and Gold Sales" section), which was the free floating rate used to translate BsF denominated transactions and balances to US Dollars for financial reporting purposes prior to May 18, 2010 on the date of gold sales to the CBV, was significantly higher than the official exchange rate of BsF 4.30/\$1.00 (government fixed) in Q2 2010, the average US Dollar realized gold price for gold sold to the CBV was significantly below the average US Dollar spot gold price for the quarter.
- During Q2 2009 gold was sold exclusively to domestic private buyers. The increase in the average spot gold price from Q2 2009 to Q2 2010 was more than offset by selling the majority of gold to the CBV in Q2 2010 at the official exchange rate compared to selling gold exclusively to domestic private buyers in BsF at the Implicit Exchange Rate in Q2 2009 and the fact the majority of gold sold to the CBV in Q2 2010 was sold prior to May 18, 2010. Also, the US Dollar per ounce sold was positively impacted by the change in translation of BsF transactions subsequent to May 17, 2010, as discussed in the "Changes in Accounting Policies" section.
- Mining operating expenses and mining amortization per ounce sold increased to \$640 and \$143 respectively in Q2 2010 from \$292 and \$76 in Q2 2009. This increase is primarily due to selling gold from areas of the Choco Mine of lower grade and a greater portion of hard rock.
- Foreign exchange loss and income tax recovery were \$105 million and \$3.5 million in Q2 2010 compared to a foreign exchange gain of \$0.5 million and income tax expense of \$0.1 million in Q2 2009 due to factors described in the "Consolidated Results of Operations" section.

### Results for the 6 Months 2010:

- During the 6 Months 2010 the Choco Mine produced 46,806 ounces compared to 74,468 ounces in the 6 Months 2009. This decrease was due to a decrease in tonnes milled and average grade to 0.86 million tonnes and 1.86 g/t respectively from 1.12 million tonnes and 2.17 g/t in the 6 Months 2009. The decrease in tonnes milled and average grade are consistent with the explanations for Q2 2010 above.
- Ounces sold increased to 80,983 ounces in the 6 Months 2010 from 49,622 ounces in the 6 Months 2009 to fund convertible debt repayments as described previously. Revenue per ounce increased to \$742/ounce in the 6 Months 2010 from \$701/ounce in the 6 Months 2009.
- During the 6 Months 2010 the majority of gold sales were made to the CBV and during the 6 Months 2009 gold sales were made exclusively to domestic private buyers with a resulting impact on revenue as described in the Q2 2010 results above. The increase in the average spot gold price from the 6

Months 2009 to the 6 Months 2010 was more than offset by selling the majority of gold to the CBV in the 6 Months 2010 at the official exchange rate compared to selling gold exclusively to domestic private buyers in BsF at the Implicit Exchange Rate in the 6 Months 2009.

- Mining operating expenses and mining amortization per ounce sold increased to \$626 and \$139 respectively in the 6 Months 2010 from \$355 and \$99 in the 6 Months 2009. This increase is primarily due to selling gold from areas of the Choco Mine of lower grade and a greater portion of hard rock.
- Foreign exchange loss and income tax recovery were \$75 million and \$10.5 million in the 6 Months 2010 compared to a foreign exchange gain of \$0.7 million and income tax expense of \$1.7 million in Q2 2009 due to factors described in the "Consolidated Results of Operations" section.

The current NI 43-101 compliant gold reserves at the Choco Mine based on a 100% ownership interest are 1.83 million ounces of gold proven and probable reserves (17.7 million tonnes grading 3.22 g/t). Current NI 43-101 compliant resources are 8.3 million ounces of gold measured and indicated (139.9 million tonnes grading 1.85 g/t) and 2.8 million ounces of gold inferred (59.2 million tonnes grading 1.48 g/t). The resources at the Choco Mine are detailed in a news release dated July 6, 2010 and the technical information on the resources at the Choco Mine are detailed in a NI 43-101 compliant technical report titled "Technical Report on the Mineral Resources of the Choco 10 Deposits, Bolivar State, Venezuela" dated August 18, 2010 and the news release, technical report and Pre-Feasibility Study are available on [www.sedar.com](http://www.sedar.com). The technical information on the reserves at the Choco Mine are detailed in a NI 43-101 compliant technical report titled "Technical Report on the PMG (Goldfields) Choco 10 Concession and Mine, Estado Bolivar Venezuela" dated November 27, 2007.

In 2008, the Company initiated a scoping study for the Choco Mine and surrounding deposits. The scoping study titled "Technical Report on the Preliminary Assessment of the Expansion of Production at Choco 10, Bolivar State, Venezuela" is dated June 2, 2009. The scoping study outlined favorable economics for a significant expansion to 20,000 tonnes per day which would result in production of an average of 558,000 ounces of gold per year at a cash cost of \$331 per ounce of gold over the 12 year life of mine. The data and conclusions of the scoping study now form the basis for a feasibility study (see news releases dated May 19, 2009 and July 20, 2009, which are available on SEDAR at [www.sedar.com](http://www.sedar.com)), which the Company initiated in Q3 2009. These studies are focused on establishing the viability of planned significant gold production expansion at the Choco Mine, including processing gold at the Choco Mine mill from the adjacent Incredible 6 property (see Incredible 6 Project below). The feasibility study is expected to be concluded during 2010.

During Q2 2010 no exploration drilling was completed and exploration and development work included advancement of internal studies which will assist in resource and reserve conversion to support expanded production capacity (in approximately 3-4 years) and the feasibility study.

### Isidora Mine

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

Results for Q2 2010:

- Ounces sold increased to 6,398 ounces in Q2 2010 from 3,136 ounces in Q2 2009 due to the uncertainty caused by the introduction of gold sales resolutions in Q2 2009 as described in the "Venezuelan Currency Exchange and Gold Sales" section and due to timing of sales.
- Revenue per ounce increased to \$940/ounce in Q2 2010 from \$607/ounce in Q2 2009. This increase was significantly due to the increase in the average spot gold price from Q2 2009 to Q2 2010 and as discussed in the "Changes in Accounting Policies" section, sales are now translated at the official exchange rate which increases the US dollars being reported per ounce sold subsequent to May 17, 2010. The resulting increase in revenue per ounce sold, has been significantly realized in the Isidora Mine segment due to the fact that the majority of the Isidora sales occurred subsequent to May 17, 2010.

- Mining operating expenses and mining amortization per ounce sold increased to \$760 and \$131 respectively in Q2 2010 from \$347 and \$103 in Q2 2009. This increase is significantly due to reduced efficiency at the Isidora Mine as a result of lack of availability of mining fleet equipment and work stoppages at the Isidora Mine which also resulted in a corresponding decrease in production.
- Foreign exchange loss was \$10.4 million in Q2 2010 compared to \$Nil in Q2 2009 due to factors described in the "Consolidated Results of Operations" section.

Results for the 6 Months 2010:

- Ounces sold remained relatively constant at 8,328 ounces in 6 Months 2010 compared to 9,494 ounces in 6 Months 2009.
- Revenue per ounce increased to \$893/ounce in Q2 2010 from \$690/ounce in Q2 2009. This increase was mainly the result of an increase in the average spot gold price during the 6 Months 2010 and change in translation rate as described in the Q2 2010 results above.
- Mining operating expenses and mining amortization per ounce sold increased to \$744 and \$133 respectively in the 6 Months 2010 from \$666 and \$102 in the 6 Months 2009. This increase is primarily due to higher costs discussed in the results for Q2 2010 described above which were partially offset by the fact that the 6 Month 2009 mining operating expenses included the fair value differential of inventory.
- Foreign exchange loss was \$7.3 million in the 6 Months 2010 compared to \$Nil in the 6 Months 2009 due to factors described in the "Consolidated Results of Operations" section.

The NI 43-101 compliant resources at the Isidora Mine based on a 100% interest are detailed in a technical report titled "Technical Report on the Mining and Processing Operations of Hecla Mining Company, Estado Bolivar Venezuela" dated August 1, 2008 and includes both the main Isidora Deposit and near-by Twin Shear Zone. The Isidora Deposit which has proven and probable reserves of 185,000 ounces of gold (179,000 tonnes grading 32.1 g/t), measured and indicated resources of 331,000 ounces of gold (470,000 tonnes grading 21.9 g/t) and an inferred resource of 45,000 ounces of gold (99,000 tonnes grading 14.1 g/t) and the current resource for the Twin Shear Zone is 482,000 ounces of gold inferred (1,200,000 tonnes grading 12.5 g/t).

Approximately 10,000 metres of drilling are planned for 2010 directed at expanding the existing resources at the Isidora Mine. No drilling was completed during Q2 2010 on the Isidora Mine.

### Exploration and Development

Results for Q2 2010 and 6 Months 2010:

- Exploration and development segment foreign exchange loss increased from \$0.2 million in Q2 2009 to \$31.3 million in Q2 2010 and during the 6 Months 2009 this segment recorded a foreign exchange gain of \$1.0 million compared to a foreign exchange loss of \$22.7 million during the 6 Months 2010 due to factors described in the "Consolidated Results of Operations" section.

### San Rafael El Placer

An updated NI 43-101 compliant resource estimate for the SREP project on the SREP mineral titles was completed in Q4 2008 and detailed in a technical report titled "Technical Report on the San Rafael-EI Placer and Days Vein Deposits, Bolivar State, Venezuela", dated October 2, 2008. The updated gold resource for SREP consists of an indicated resource of 399,000 ounces of gold (0.64 million tonnes grading 19.4 g/t) and an additional 523,000 ounces of gold in inferred resources (0.70 million tonnes grading 23.1 g/t).

No additional exploration drilling was completed during Q2 2010. Previous drilling in support of the Pre-Feasibility Study included the collection of samples for metallurgical testing from sections of the indicated resources as well as in-fill drilling designed to upgrade a portion of the resource from inferred to indicated.

During Q1 2010 the Company completed construction on the Alvarez underground ramp (4.5 metres x 5.0 metres) in order to provide access to the main SREP gold mineralized zones at a vertical depth of approximately 200 metres below surface. The total ramp length is approximately 1,500 metres. The Company intercepted the mineralized zone and began test sampling in Q1 2010. The ramp provides all of the necessary access to conduct further exploration with a view to upgrading the classification of the current resources at SREP.

During Q2 2010 the Company reported results for underground sampling at the SREP project. Detailed sampling is being completed on the primary structure as part of the on-going exploration and verification program designed to validate the existing resources and the current block model. Sampling completed between March 18, 2010 and April 8, 2010 on the -40 metre level (approximately 200 metre below surface) has confirmed the width and grade of the main mineralized zone. Weighted averages and vein results from recent samples include; 9.26 g/t over 2.8 metre (-40E/15.4 metre), 23.03 g/t over 3.1 metre (-40E/18.1 metre), 2.08 g/t over 2.9 metre (-40E/19.4 metre), 2.23 g/t over 2.2 metre (-40E/20.8 metre), 14.24 g/t over 2.2 metre (-40E/22.9 metre), 79.51 g/t over 3.2 metre (-40E/29.0 metre), 34.26 g/t over 3.3 metre (-40E/30.25 metre) and 103.04 g/t over 3.4 metre (-40E/32.0 metre). The sampling program and results were detailed in a news release reported on April 15, 2010 which is available on [www.sedar.com](http://www.sedar.com).

The Pre-Feasibility Study and the Technical Report for the SREP project were completed in May 2010. The Technical Report detailing the Pre-Feasibility Study titled "Preliminary Feasibility Study – NI 43-101 Technical Report on the San Rafael and El Placer Deposits, State of Bolivar, Venezuela" dated May 7, 2010 authored by Whillans Mine Studies Ltd. was filed on [www.sedar.com](http://www.sedar.com) and the results were reported in a news release dated May 11, 2010 which is available on [www.sedar.com](http://www.sedar.com). The Pre-Feasibility Study included completion of a mine plan for the existing indicated resources resulting in a probable reserve of 1,157,000 tonnes grading 10.1 g/t of gold (375,700 ounces). The study assumes all mined material is processed at the existing Choco Mine mill. Gold production from the SREP deposit includes the recovery of a total of 319,456 ounces over a six year mine life reaching a peak of 76,000 ounces in year 2014 at a life-of-mine cost of production of \$324/oz of gold. Mine capital development is estimated at \$9.8 million, capital infrastructure and equipment at \$17.3 million, capital mine indirect costs at \$14.6 million, and sustaining capital at \$20.4 million over the life of mine (6 years). Life-of-mine net income after taxes is \$51.9 million with a payback estimated at three years. At a gold price of \$950/oz, the Pre-Feasibility Study estimates the net present value (8% discount) to be \$28.2 million with an after-tax internal rate of return of 30%.

## **Incredible 6**

The Incredible 6 project is located in the El Callao district, eight kilometres northeast of the Choco Mine mill. Previous work at Incredible 6 includes geochemistry, geophysics trenching, and drilling which has outlined a series of gold targets. The main gold zones (Culebra, Cristina, Elisa, and Olga) are contained within a 4.5 km long and 1.0 km wide east-west trending shear zone, which crosses the central portion of the project. An updated resource estimate increased the resource to 1.59 million ounces of gold indicated (23.45 million tonnes grading 2.11 g/t) and 1.1 million ounces of gold inferred (17.5 million tonnes grading 1.95 g/t). The technical information on Incredible 6 is detailed in a NI 43-101 compliant technical report titled "Technical Report on the Incredible 6 Property, Bolivar State, Venezuela" dated November 14, 2007, as revised February 14, 2008.

Exploration and development activities during 2010 comprised largely of surveying, and related work designed to provide additional information for the detailed geological model for on-going mine development. No additional drilling was completed in Q2 2010. All zones remain open. The oxide portion of Incredible 6 is included into the Choco Mine oxide strategy for near term exploitation. An updated NI 43-101 compliant resource estimate for Incredible 6 is in progress and will be completed in 2010.

Subject to the receipt of the permit to affect natural resources from the Ministry of the Environment, the Company expects to start mining ore from Incredible 6 and processing it at the mill at the Choco Mine during 2010 (see "Outlook" section). During Q3 2009 the Company received the exploitation permit from the Venezuelan Ministry of Mines and Basic Industries ("MIBAM") for mining at the Incredible 6 Project (see news release dated September 11, 2009 which is available on SEDAR at [www.sedar.com](http://www.sedar.com)).

## Other Properties

For details of other exploration and development properties including El Callao, Valle Hondo and other properties please refer to the Company's MD&A as at December 31, 2009.

## Corporate

Results for Q2 2010:

- During Q2 2010 the Company's corporate segment incurred general and administrative costs of \$2.0 million compared to \$1.1 million in Q2 2009. This increase was significantly the result of a payment due to the non-renewal of a consulting agreement with an officer.
- During Q2 2010 the Company's corporate segment's stock-based compensation was \$0.2 million compared to \$5.6 million in Q2 2009. This decrease is the result of the issuance of fully vested stock options and re-pricing of certain stock options in Q2 2009.
- During Q2 2010 the Company's corporate segment interest on convertible loan was \$2.4 million compared to \$3.3 million in Q2 2009. The decrease for Q2 2010 is the result of the Company repurchasing a portion of the convertible loan in November 2009 and the repayment of a portion of the principal in Q2 2010 which resulted in interest being recorded on a lower principal in Q2 2010 compared to Q2 2009.

Results for 6 Months 2010:

- During the 6 Months 2010 the Company's corporate segment incurred general and administrative costs of \$4.3 million compared to \$3.0 million in the 6 Months 2009. This increase was significantly the result of payments due to the non-renewal of consulting agreements with two officers.
- During the 6 Months 2010 the Company's corporate segments stock-based compensation was \$0.3 million compared to \$6.1 million due to factors described for Q2 2010 above.
- During the 6 Months 2010 the Company's corporate segment's interest on convertible loan was \$5.0 million compared to \$6.6 million in the 6 Months 2009 due to factors described for Q2 2010 above.

## 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. In March of 2005, the rate was fixed at Bs 2,150/\$1.00. Effective January 1, 2008 the Venezuelan government changed the name of the currency to the BsF and modified the currency by fixing the official rate at BsF 2.15/\$1.00. On January 11, 2010 the 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 Rate" or "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 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 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. 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.

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% 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, 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 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.

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 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.

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 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 ("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. The updated Exchange Agreement No. 12 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, inventories and mineral properties may be materially negatively impacted.

Finished gold sold to the CBV during the 6 Months 2010 including Q2 2010 were sold based on the international US Dollar spot gold price less a discount of 1.5% with payment received in BsF at the official exchange rate of BsF 4.30/\$1.00 yielding an effective discount from the average US Dollar spot gold price of 37% for Q2 1010 and 36% for the 6 Months 2010. Finished gold sold to private buyers representing the domestic processing industry yielded an effective discount from the average US Dollar spot gold price of 31% for Q2 2010 and 29% for the 6 Months 2010. No finished gold was exported during the Six Months 2010 including Q2 2010 and from July 1, 2010 until the date of this MD&A.

Gold inventories with a net book value of \$31.2 million as at June 30, 2010 comprise 20,330 ounces of finished gold, 4,427 ounces of gold in process and 22,991 ounces of gold-stockpile. Of these gold inventories, Choco Mine comprise 14,178 ounces of finished gold, 2,636 ounces of gold in process and 22,133 ounces of gold-stockpile; Isidora Mine comprise 6,152 ounces of finished gold, 1,791 ounces of gold in process and 858 ounces of gold-stockpile. Unsold finished gold as at August 27, 2010 totalled 21,045 ounces including 14,452 ounces produced at the Choco Mine and 6,593 ounces produced at the Isidora Mine.

### Selected Quarterly Information

	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
<b>Revised Reported (*):</b>								
Revenue	51,144	16,343	4,617	26,411	11,185	30,160	20,730	14,717
Net (loss) income	(151,362)	42,636	(10,084)	(350)	(6,393)	543	(14,767)	(10,114)
Basic and diluted (loss) earnings per share	(0.29)	0.08	(0.02)	0.00	(0.01)	0.00	(0.04)	(0.03)
<b>Previously reported (*):</b>								
Revenue	-	-	-	-	-	-	-	14,717
Net loss	-	-	-	-	-	-	-	(12,490)
Loss per share	-	-	-	-	-	-	-	(0.03)

**Note:** in thousands of \$ except per share data

(\* Effective November 30, 2007, the Company acquired a 95% ownership interest in the Choco Mine and a 95% - 100% ownership interest in the other Venezuelan mineral properties of Gold Fields Netherlands Services BV ("the Goldfields Acquisition"). The purchase price allocation of the assets and liabilities acquired in the Goldfields Acquisition was amended during the fourth quarter of 2008. This resulted in a reallocation of certain costs within property, plant and equipment and reallocation of certain costs to mineral properties from property, plant and equipment resulting in decreased amortization expense and decreased recovery of future income taxes for Q1 to Q3 2008 compared to amounts previously reported in the interim financial statements and MD&A filed for those quarters. The table above shows revised figures compared to amounts previously reported.

The Company's has experienced significant volatility in its results over the eight most recently completed quarters. Revenues have been volatile primarily as a result of uncertainties caused by the issuance and interpretation of the resolutions and exchange agreements described in the "Venezuela Currency Exchange and Gold Sales" section. Net income/loss has been volatile primarily due to volatility of revenue, changes in mining operating expenses and the impact of unrealized foreign exchange gains/losses due to changes in the rate used to translate the Company's future income tax liability for periods subsequent to Q4 2009.

### Financial Position

The Company's assets totalled \$1,021 million as at June 30, 2010 (December 31, 2009: \$1,034 million). Total assets primarily consisted of \$5 million in cash (December 31, 2009: \$10 million), \$27 million in receivables (current and non-current) (December 31, 2009: \$16 million), \$35 million in inventories (December 31, 2009: \$51 million) which are recorded at cost, \$670 million in property, plant and equipment (December 31, 2009: \$675 million) and \$274 million in mineral properties (December 31, 2009: \$269 million). A significant amount of the Company's liabilities, including accounts payable and accrued liabilities of \$57 million as at June 30, 2010 (December 31, 2009: \$30 million) and future income tax liability of \$351 million (December 31, 2009: \$264 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, 2010. The increase in receivables, accounts payable and accrued liabilities and future income tax liability balances were significantly impacted due to translating these balances using a stronger BsF translation rate as discussed in the "Consolidated Results of Operations" section.

Convertible loan of \$28 million (December 31, 2009: \$58 million) which is due on June 10, 2011 represents the balance of the convertible loan which is being accreted at an effective interest rate of 18% and the segregation of the \$2 million equity component (December 31, 2009: \$5 million) attributable to the convertible option of the lenders which is disclosed in shareholders' equity. The loan is held in US Dollars and is repayable as indicated under the "Liquidity and Capital Resources" section.

### **Liquidity and Capital Resources**

The Company's cash position decreased \$4.9 million and the Company's short-term investments decreased \$3.8 million from December 31, 2009 to June 30, 2010. The majority of the decrease in cash for the 6 Months 2010 was the negative cash flow from financing activities of \$30.0 million and investing activities of \$3.2 million which was offset by cash flow from operations of \$28.2 million.

The increase in cash flow from operations from \$4.5 million for the 6 Months 2009 to \$28.2 million for the 6 Months 2010 was significantly the result of the Company selling a significant portion of the finished gold the Company had produced in prior periods and the receipt of deferred revenue of \$6.9 million in the 6 Months 2010. The decrease in cash outflow from investments from \$14.8 million for the 6 Months 2009 to \$3.2 million for the 6 Months 2010 was primarily the result of the Company purchasing \$7.4 million of short-term investments in the 6 Months 2009 whereas the Company redeemed \$3.4 of short-term investments in the 6 Months 2010. Cash flow from financing activities was \$59.8 million in the 6 Months 2009 compared to cash outflow from financing activities of \$30.0 million in the 6 Months 2010. This change is significantly the result of the Company issuing shares in a public offering for net proceeds of \$60.3 million in the 6 Months 2009 and the Company repaying \$30.0 million of convertible debt principal in the 6 Months 2010.

The strategic plan for the Company includes as the main objective to preserve or enhance its existing cash position until June 2011 when the \$30 million principal of the convertible loan becomes due and to make required capital asset expenditures to increase production to the optimal level which should result not only in increased production but should positively impact expenses and cash cost per ounce.

Contingent on the Company's ability to obtain appropriate export permits and to renew export permits upon expiry 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 convertible debt principal repayment of \$30.0 million in June of 2011. 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 convertible debt 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.

The Company maintains the majority of its cash in US Dollars. A large portion of the Company's operating and capital expenditures are in US Dollars. The Company also maintains necessary cash in BsF and Canadian Dollars ("C\$"), sufficient to fund short-term operating commitments in those currencies.

Practical restrictions currently exist on the ability of the Company to convert BSF to US dollars and to transfer funds from its 50% joint venture to the Company's other subsidiaries. The restrictions on converting funds from BSF to US dollars arise as the Company no longer has access to the Swap Market and due to the volume restrictions of SITME as described in the "Venezuela Currency Exchange and Gold Sales" section. The Company will obtain access to US dollars to make certain direct payments in foreign currency as discussed in the "Venezuela Currency Exchange and Gold Sales" section contingent on the Company's ability to obtain appropriate export permits and to renew export permits upon expiry. The restrictions on transfers of funds from the joint venture arise from the fact that financial decisions impacting the joint venture are made in collaboration with the Company's joint venture partner, the Venezuelan government. These restrictions affect the Company's ability to use cash resources from Venrus C.A. to fund the Company's operations in segments other than the Isidora Mine segment including repayment of the convertible loan. Cash as at June 30, 2010 includes \$1.6 million held by Venrus C.A.

As at August 27, 2010, the Company has \$4.3 million in cash and the outstanding \$30 million principal portion of the convertible loan is due in June 10, 2011.

### **Gold Reserve Bid**

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 (see the section headed "Contingencies") as an expense in the litigation and unsuccessful acquisition costs in the consolidated statement of operations.

### **Outlook**

During 2010, the Company expects to produce 110,000 ounces from the Choco Mine and its 50% interest in the Isidora Mine. The decrease in production guidance from 142,000 ounces previously reported is due to the factors described below. Total cash costs per ounce sold for 2010 are expected to be \$831 per ounce. The expected cash cost per ounce sold has been increased from \$613 previously reported due to the factors described below.

For the cost per ounce estimate, the Company assumes a BsF/US Dollar average exchange rate during the year for translation of BsF 5.25/\$1.00 compared to a previously assumed rate of BsF 7/\$1.00. This decrease is due to the change in rate used for translation from the Implicit Exchange Rate to the official exchange rate of BsF 4.30/\$1.00 subsequent to May 17, 2010 as discussed in the "Changes in Accounting Policies" section. Due to the change in rate used for translation the Company expects revenues per ounce for the second half of 2010 to approximate the average spot gold price. Any significant change in the rate will generate a material change in the Company's expected costs and revenues.

### **Choco Mine**

For 2010 the projected gold production guidance for the Choco Mine is 95,000 ounces of gold and projected cash cost per ounce sold of \$800. The Choco Mine production guidance has been reduced from 116,500 ounces previously reported as a result of the decrease in capital expenditures described below. The projected cash cost per ounce sold has been increased from \$600 previously reported due to the change in exchange rate for translation described above and the reduction of expected ounces produced. Due to the change in rate used for translation the Company expects revenues per ounce for the Choco Mine for the second half of 2010 to approximate the average spot gold price.

Capital expenditures expected for the full year 2010 at the Choco Mine include:

Feasibility study: \$1.7 million  
Resource to reserve conversion drilling: \$1.0 million (\$3.0 million previously reported)  
Processing plant improvements: \$3.5 million (\$7.0 million previously reported)  
Tailings dam upgrades: \$3.5 million  
Other sustaining capital expenditure: \$3.0 million (\$6.0 million previously reported)

A scoping study for the expansion of the output at the Choco Mine operation to a production rate of up to 20,000 tons per day was completed on schedule in May 2009. The Choco Mine operation includes the presently operating Rosika, Coacia, Pisolita and Capia open pits and planned mine production from the Villa Balazo-Karolina (VBK) pit at the Choco Mine and from the 100% owned Incredible 6 concession which is located 8 km northeast of the Choco Mine as well as from the small Cerro Azul deposit. The feasibility study initiated in Q3 2009 is expected to be completed during 2010.

The Company expects to incur \$1.0 million in expenditures related to the exploration program with planned drilling of 5,000 metres (of resource to reserve conversion drilling reduced from the previously reported 20,000 metres of drilling as a result of the completed resource update) planned for the Choco Mine during 2010. This drilling is to update reserves and resources to support the economic model of the feasibility study. The decrease in other capital expenditures at the Choco 10 Mine is due to conservation of cash for loan principal repayments made in June of 2010 and due to the Company not exporting finished gold during the 6 Months 2010.

### **Isidora Mine**

Ore from the Company's 50% interest in the Isidora Mine is expected to continue to be processed during 2010 at the La Camorra mill which is located 120 kilometres from the Isidora Mine.

For 2010 the projected gold production guidance for the Isidora Mine is 30,000 ounces of gold (15,000 ounces net to the Company) and projected cash cost per ounce sold of \$1,025. The Isidora Mine production guidance has been reduced from 51,000 ounces (25,500 ounces net to the Company) due to lack of availability of mining fleet equipment and work stoppages at the Isidora Mine. The projected cash cost per ounce sold has been increased from \$670 previously reported due to the reduction in exchange rate for translation described above and the reduction of expected ounces produced. Due to the change in rate used for translation the Company expects revenues per ounce for the Isidora Mine for the second half of 2010 to approximate the average spot gold price.

Forecasted capital expenditures at the Isidora Mine for 2010 include sustaining capital expenditures (mainly renewal of mining equipment and fleet) of \$2.0 million (\$1.0 million net to the Company). The Company expects to incur \$1.5 million (\$0.8 million net to the Company) in expenditures related to drilling 10,000 metres in 2010 (reduced from \$4.5 million (\$2.3 million net to the Company) and 30,000 metres due to the delayed start of 2010 drilling activities). This drilling is designed to expand existing reserves and resources at the Isidora Mine to support future gold production. The Company is expecting to provide a resource update for the Isidora Mine in 2011 once results for the current drilling program are compiled and interpreted.

### **Other Advanced Properties**

The Company has constructed the 1,500 metres Alvarez underground ramp on the SREP project (4.5 metres x 5.0 metres) in order to provide access to main mineralized areas at a vertical depth of approximately 200 metres below surface. In the first quarter of 2010 the Company intercepted the mineralized zone and began test sampling. The ramp provides all of the necessary access to conduct further underground development around the main mineralized zones and exploration with a view to upgrading the classification of the current resources at SREP.

Capital expenditures expected for SREP during 2010 includes \$6.0 million (increase from \$3.5 million previously reported due to increased costs) in further underground development and \$1.5 million for the purchase of mining equipment.

The Company believes it has completed all necessary steps to obtain the Incredible 6 permit to affect natural resources from the Ministry of the Environment. If granted this will allow the Company to increase gold production in the near term as the material initially available at Incredible 6 is composed of softer ore (oxide) which requires less treatment than the material currently being processed at the Choco Mine mill.

## Commitments

As 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:

	<u>\$(000)</u>
2010	2,917
2011	3,515
2012	3,458
2013	3,458
2014 and Thereafter	18,692
	<u>32,040</u>

## Contingencies

### Central Bank of Venezuela Resolution

See the "Venezuelan Currency Exchange and Gold Sales" section for the description of Resolutions No. 09-06-03, No. 10-07-01 and Exchange Agreement No. 12 (including the updated Exchange Agreement No. 12) and the potential impact on the Company.

### Gold Reserve Lawsuit

In December 2008 Gold Reserve claimed general damages of \$500 million and punitive damages of \$50 million 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 \$102.5 million 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 million for trespass and conversion, and interference with contractual and economic relations, and punitive damages of \$50 million. The outcome of this matter is not determinable at this time and no amount has been accrued in the consolidated financial statements for this claim.

### Non-Compliance

During Q2 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 million 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 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 financial position, results of operations or cash flows.

## Off-Balance Sheet Arrangements

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

## Related Party Transactions (Expressed in Thousands of US Dollars)

- Included in receivables are amounts owed from companies which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively, of \$283. These amounts are unsecured and non-interest bearing with no set terms of repayment.
- Included in amounts capitalized in mineral properties is \$108 related to the provision of technical and geological services and machinery rental from companies of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.
- Included in accounts payable and accrued liabilities are amounts due to companies 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 of \$169. These amounts are unsecured, due on demand and non-interest bearing.
- Included in general and administrative expenses is \$27 for the three-month period and \$55 for the six-month period ended June 30, 2010 related to the rental of the Caracas office from a company that Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.
- Included in convertible loan is financing costs of \$22, included in general and administrative expenses is \$48 for the three-month period and \$87 related to the provision of legal services which were paid to a law firm, of which, Jay Kaplowitz, 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.

## Disclosure of Outstanding Share Data

As at August 27, 2010, the Company has 529,845,623 common shares issued and outstanding, 48,027,648 stock options to acquire an equal amount of common shares outstanding of which 46,699,315 were exercisable, 138,800,129 warrants to acquire an equal amount of common shares outstanding, 49,832,500 warrants committed to acquire an equal amount of common shares and the \$30 million principal of the convertible loan is convertible into 75,000,000 common shares.

## 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.

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 \$0.7 million as at June 30, 2010 (December 31, 2009: \$0.2 million).

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 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 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 \$350,000 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.

### **International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board adopted a strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to a single set of globally accepted high-quality standards, namely, IFRS, as issued by the International Accounting Standards Board ("the IASB"). The effective implementation date of the conversion from GAAP to IFRS is January 1, 2011, with an effective transition date of January 1, 2010 for financial statements prepared on a comparative basis. The Company is engaged in an assessment and conversion process which includes consultation with external consulting firms and expects to be ready for the conversion to IFRS in advance of January 1, 2011.

The Company's approach to the conversion to IFRS includes three phases:

- Phase One, an initial general diagnostic of its accounting policies and GAAP relevant to its financial reporting requirements to determine the key differences and options with respect to acceptable accounting standards under IFRS, was completed in 2009.
- Phase Two, an in depth analysis of the impact of those areas identified under phase one, is expected to be completed in the third quarter of 2010.

- Phase Three, the implementation of the conversion process, through the preparation of the opening balance sheet at January 1, 2010 will be carried out in the second half of 2010.

At this point, the Company's IT accounting and financial reporting systems are not expected to be significantly impacted.

Based on the review undertaken under Phase One, the Company believes that IFRS will have limited impact on its current financial position, except for any potential impact of impairment of long-lived assets, and impact of changes in treatment of deferred tax assets. However, this initial analysis is subject to change based on the Company's ongoing review and continued changes to IFRS standards.

Key Area	GAAP (applied by the Company)	IFRS	Analysis and Preliminary Conclusions
Property plant and equipment ("PP&E")	<p>PP&amp;E is recorded at historical cost.</p> <p>Mining properties, net of residual value are amortized by the unit of production method based on proven and probable reserves. Property, plant and equipment other than mining properties are amortized net of residual value, over estimated useful life on the asset.</p>	<p>PP&amp;E can be recorded using the cost or revaluation models.</p> <p>Mining properties, net of residual value, can continue to be amortized by the unit of production method based on proven and probable reserves. Property, plant and equipment other than mining properties must be amortized based on the useful lives of each significant component within property, plant and equipment. Useful lives and residual values are to be reassessed at least annually.</p>	<p>The Company will continue to account for its PP&amp;E using the cost method.</p> <p>Based on the current analysis of PP&amp;E's significant components and their useful lives, it is unlikely that changes to their useful lives and, therefore, amortization rates and expenses, will be significant.</p>
Mineral Properties	<p>Exploration and development costs are capitalized when incurred.</p>	<p>IFRS allows these costs and currently allows exploration and evaluation costs to be either capitalized or expensed in accordance with IFRS 6: Exploration for and Evaluation of Mineral Resources.</p>	<p>The existing accounting policy is likely to be maintained.</p>
Asset retirement obligations	<p>GAAP limits the definition of ARO's to legal obligations.</p> <p>ARO is calculated using a current credit adjusted, risk-free rate for upward adjustments and the original credit-adjusted, risk-free rate for downward revisions. The original liability is adjusted for changes in current discount rates.</p>	<p>IFRS defines ARO's as legal or constructive obligations.</p> <p>ARO is calculated using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability) and is revised to reflect changes in assumptions or discount rates.</p>	<p>The broadening of this definition is unlikely to cause a significant change in current estimates.</p> <p>The change in calculation of ARO and the discounting process will possibly generate some changes in the value of ARO on transition.</p>

Key Area	GAAP (applied by the Company)	IFRS	Analysis and Preliminary Conclusions
Impairment of long-lived assets	<p>Impairment tests of the Company's long-lived assets are considered annually and when events are circumstance indicate an impairment event may have occurred.</p> <p>Impairment tests are generally done on the basis of undiscounted future cash flows.</p> <p>Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets.</p>	<p>Impairment tests of "cash generating units" are considered annually and when events and circumstances indicated an impairment event may have occurred.</p> <p>Impairment tests are generally carried out using the discounted future cash flows.</p> <p>Write downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist.</p>	<p>The Company believes the grouping of long-lived assets for impairment testing will remain unchanged.</p> <p>Impairment tests using discounted values generate a greater likelihood of write-downs in the future.</p> <p>Potential significant volatility in earnings could arise as a result of the difference in the treatment of write-downs.</p>
Income taxes	<p>Deferred (future) tax assets or liabilities for temporary differences arising from translation of non-monetary assets or liabilities are not recognized.</p> <p>Foreign exchange gains and losses from translation of deferred tax assets or liabilities are recorded as foreign exchange gains/losses in the Company's consolidated statement of operations.</p>	<p>Deferred tax assets or liabilities for temporary differences arising from translation of non-monetary assets or liabilities are recognized.</p> <p>Foreign exchange gains and losses from translation of deferred tax assets or liabilities are recorded as future income tax expense (recovery) in the Company's consolidated statement of operations.</p>	<p>This difference will likely result in a change in the balances of future income tax liabilities.</p> <p>Future income tax expense (recovery) may become more volatile as a result of recording foreign exchange gains and losses from translation of deferred tax assets or liabilities as future income tax expense (recovery) in the Company's consolidated statement of operations.</p>

Key Area	GAAP (applied by the Company)	IFRS	Analysis and Preliminary Conclusions
Joint Venture	The Company uses proportionate consolidation to record its proportional share of assets, liabilities, revenue and expenses of Venrus C.A.	Under the current IFRS standard, IAS 31 - <i>Interests in Joint Ventures</i> , the Company has the option to account for its interest in Venrus C.A. using proportionate consolidation. The IASB issued Exposure Draft 9 - <i>Joint Arrangements</i> ("ED-9") in September 2007 with comments due January 2008. ED-9 proposed to eliminate the choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method. The new IFRS standard for joint arrangements which was originally planned for issuance in the third quarter of 2009 has not yet been issued. During the second quarter of 2009, the IASB commenced redeliberations of ED-9 and now proposes to allow proportionate consolidation of a jointly controlled entity if the agreement between joint venture partners indicate that the rights of each joint venture partner to the assets and net earnings of the joint arrangement, and obligations of each joint venture partner to the risks and liabilities of the joint arrangement are in proportion to their respective interests in the joint arrangement. The IASB continues to discuss various items on this topic and expects publication of the final Standard at the end of the second quarter of 2010.	If the finalized revised standard is consistent with the treatment currently proposed, the Company does not expect a significant change in the treatment of the Venrus C.A. joint venture due to the transition to IFRS.

IFRS 1 governs the first-time adoption of IFRS. In general, accounting policies adopted in accordance with IFRS are to be applied retrospectively. IFRS 1 allows certain exemptions from retrospective application. The exemptions the Company currently intends to elect to apply in preparing its first IFRS financial statements include:

- (a) Not accounting for business combinations that occurred prior to January 1, 2010 using the principles of IFRS 3 – *Business combinations* and the Company also elected to early adopt Section 1582 effective January 1, 2010 which is aligned to IFRS 3;
- (b) Not applying the recognition and measurement principles of IFRS 1 – *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in such liabilities that occurred prior to January 1, 2010; and instead measuring the Company's reclamation and closure cost obligations at fair value on January 1, 2010, estimating the amounts that would have been included in the cost of the related mining properties when the obligations first arose using the applicable historical country-specific risk free rates and recalculating the accumulated depreciation and depletion for such assets at January 1, 2010.

The above comments should not be considered as a complete list of changes that will result from the transition to IFRS as the Company's analysis is still in progress and no final determinations have been made where choices of accounting policies are available. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's consolidated financial statements as at January 1, 2011 and in subsequent years, including projects regarding income taxes, financial instruments and joint venture accounting. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, but this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

### **Effective 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. The Company has begun to design mitigating controls to address these weaknesses.

### **Limitations of Internal Controls and Procedures**

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.

### **Financial Instruments Risks**

#### **Credit Risk**

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

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

#### **Liquidity Risk**

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

The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations and accessing capital markets. 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.

	<b>2010</b> <b><u>\$(000)</u></b>	<b>2011-2012</b> <b><u>\$(000)</u></b>	<b>Total</b> <b><u>\$(000)</u></b>
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**

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

### **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 \$0.2 million and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$0.2 million.

### **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 \$4.2 million (December 31, 2009: \$0.7 million) in BsF.

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

	<b>As at June 30, 2010</b>	
	<b>25% Increase in the</b> <b>BsF</b> <b><u>\$(000)</u></b>	<b>25% Decrease in the</b> <b>BsF</b> <b><u>\$(000)</u></b>
Net earnings	(6,410)	5,128

	<b>As at June 30, 2010</b>	
	<b>10% Increase in the</b> <b>C\$</b> <b><u>\$(000)</u></b>	<b>10% Decrease in the</b> <b>C\$</b> <b><u>\$(000)</u></b>
Net earnings	40	(37)

## Other Risks and Uncertainties

The Company is subject to various financial and operational risks that could have a significant impact on the Company's profitability and levels of operating cash flow, and could cause such forward-looking information contained in this MD&A and described in the "Forward Looking Statements" section. For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's MD&A as at December 31, 2009.

## Cautionary Non-GAAP Measures

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

## Forward Looking Statements

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

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

or grades of reserves; adverse changes in the Company's credit rating; contests over title to properties particularly title to undeveloped properties; the occurrence of natural disasters, hostilities, acts of war or terrorism; corruption and uncertain legal enforcement; requests for improper payments; on the Company's ability to market gold produced and on its results of operations; on the Company's ability to obtain necessary authorization from the CBV to export gold and on the Company's ability to retain any funds from sales of exported gold outside Venezuela; on the impact of the regulation of the Swap Market by the CBV and ability to access SITME which impact the Company's ability to obtain \$US dollars to fund operating and capital expenditures; and the result or outcome of the statement of claim filed by Gold Reserve Inc. against the Company in the Ontario Superior Court of Justice claiming 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.