



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

**RUSORO MINING LTD.
CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	September 30, 2010	December 31, 2009
	\$	\$
ASSETS		
Cash	7,548	10,420
Short-term investments	-	3,806
Receivables (Notes 4 and 13)	16,077	3,357
Inventories (Note 5)	31,951	52,985
Prepaid expenses and deposits	13,692	8,088
Current assets	<u>69,268</u>	<u>78,656</u>
Receivables (Note 4)	12,274	13,041
Property, plant and equipment (Notes 6 and 13)	669,277	675,185
Mineral properties (Notes 7 and 13)	275,759	267,175
	<u>1,026,578</u>	<u>1,034,057</u>
LIABILITIES		
Accounts payable and accrued liabilities (Notes 8 and 13)	62,920	29,959
Deferred revenue (Note 9)	6,603	-
Income taxes payable	4,395	2,812
Current portion of convertible loan (Notes 10 and 13)	27,901	57,935
Current liabilities	<u>101,819</u>	<u>90,706</u>
Accrual for termination benefits	-	915
Asset retirement obligations	4,914	3,125
Future income tax liability	341,996	264,405
	<u>448,729</u>	<u>359,151</u>
EQUITY		
Share capital (Notes 11(a) and 13)	736,087	736,087
Equity component of convertible loan (Note 10)	2,366	4,733
Share purchase warrants (Note 11(c)(i))	65,610	64,737
Share purchase warrants committed (Note 11(c)(ii))	330	-
Contributed surplus (Note 11(d))	61,885	56,937
Accumulated other comprehensive loss (Note 12)	(5,558)	(5,558)
Deficit	<u>(284,095)</u>	<u>(182,238)</u>
Shareholders' equity	576,625	674,698
Non-controlling interest	1,224	208
	<u>577,849</u>	<u>674,906</u>
	<u>1,026,578</u>	<u>1,034,057</u>

Nature of operations and going concern assumption – Note 1

Commitments and contingencies – Note 18

Subsequent event – Note 21

APPROVED BY THE BOARD:

“Andre Agapov”, Director

“Gordon Keep”, Director

Andre Agapov

Gordon Keep

See accompanying notes to the interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
REVENUES	42,688	26,411	110,175	67,756
COSTS AND EXPENSES				
Mining operating expenses	34,109	11,408	91,017	35,334
Mining amortization	5,342	2,991	17,717	8,870
	<u>39,451</u>	<u>14,399</u>	<u>108,734</u>	<u>44,204</u>
INCOME FROM MINING OPERATIONS	<u>3,237</u>	<u>12,012</u>	<u>1,441</u>	<u>23,552</u>
General and administrative (Note 13)	2,699	2,138	7,926	5,948
Stock based compensation (Note 11(b))	1,019	362	1,358	6,451
	<u>3,718</u>	<u>2,500</u>	<u>9,284</u>	<u>12,399</u>
(LOSS) INCOME FROM OPERATIONS	<u>(481)</u>	<u>9,512</u>	<u>(7,843)</u>	<u>11,153</u>
Interest on convertible loan	1,477	3,443	6,511	10,036
Foreign exchange (gain) loss	(1,501)	1,925	103,569	(258)
Impairment of mineral properties	-	383	-	557
Litigation and unsuccessful acquisition (Notes 13 and 18(b)(i))	-	-	-	795
Other expenses (income) (Note 4)	145	(97)	2,166	(151)
	<u>121</u>	<u>5,654</u>	<u>112,246</u>	<u>10,979</u>
(LOSS) INCOME BEFORE INCOME TAXES	<u>(602)</u>	<u>3,858</u>	<u>(120,089)</u>	<u>174</u>
Current income taxes expense (recovery)	957	(660)	957	9,904
(Recovery of) provision for future income taxes	(8,991)	4,484	(20,205)	(4,753)
	<u>(8,034)</u>	<u>3,824</u>	<u>(19,248)</u>	<u>5,151</u>
NET INCOME (LOSS)	<u>7,432</u>	<u>34</u>	<u>(100,841)</u>	<u>(4,977)</u>
ATTRIBUTABLE TO:				
Non-controlling interest	563	384	1,016	1,223
Equity shareholders of the Company	6,869	(350)	(101,857)	(6,200)
NET INCOME (LOSS)	<u>7,432</u>	<u>34</u>	<u>(100,841)</u>	<u>(4,977)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	529,846	529,846	529,846	491,377
Diluted	530,457	529,846	529,846	491,377
INCOME (LOSS) PER SHARE				
Basic and diluted income (loss) per share	0.01	0.00	(0.19)	(0.01)

See accompanying notes to the interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
NET INCOME (LOSS)	7,432	34	(100,841)	(4,977)
Unrealized foreign exchange losses on translation of self-sustaining foreign operations	-	101,084	-	17,347
COMPREHENSIVE INCOME (LOSS)	<u>7,432</u>	<u>101,118</u>	<u>(100,841)</u>	<u>12,370</u>
ATTRIBUTABLE TO:				
Non-controlling interest	563	844	1,016	844
Equity shareholders of the Company	<u>6,869</u>	<u>100,274</u>	<u>(101,857)</u>	<u>11,526</u>
COMPREHENSIVE INCOME (LOSS)	<u>7,432</u>	<u>101,118</u>	<u>(100,841)</u>	<u>12,370</u>

See accompanying notes to the interim consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	Share capital		Equity	Share	Share	Contributed	Accumulated other	Deficit	Non-	Equity
	Common	Amount	component of	purchase	purchase	surplus	comprehensive		controlling	
	Shares		convertible	warrants	warrants		income (loss)		interest	
		\$	loan		committed	\$		\$		\$
Balance, December 31, 2008	390,778	674,556	6,310	64,737	-	50,070	23,966	(167,531)	-	652,108
Shares issued to financial advisor (Note 11(c)(i))	5,734	1,250	-	-	-	-	-	-	-	1,250
Shares issued in public offering (Note 11(a)(ii))	133,334	60,281	-	-	-	-	-	-	-	60,281
Repurchase of convertible loan	-	-	(1,577)	-	-	-	-	1,577	-	-
Stock-based compensation (Note 11(b))	-	-	-	-	-	6,867	-	-	-	6,867
Comprehensive (loss) income	-	-	-	-	-	-	(29,524)	(16,284)	208	(45,600)
Balance, December 31, 2009	529,846	736,087	4,733	64,737	-	56,937	(5,558)	(182,238)	208	674,906
Share purchase warrants issued (Note 11(c)(i))	-	-	-	873	-	-	-	-	-	873
Share purchase warrants committed (Note 11(c)(ii))	-	-	-	-	330	-	-	-	-	330
Convertible loan repayment (Note 10)	-	-	(2,367)	-	-	3,590	-	-	-	1,223
Stock-based compensation (Note 11(b))	-	-	-	-	-	1,358	-	-	-	1,358
Comprehensive (loss) income	-	-	-	-	-	-	-	(101,857)	1,016	(100,841)
Balance September 30, 2010	529,846	736,087	2,366	65,610	330	61,885	(5,558)	(284,095)	1,224	577,849

See accompanying notes to the interim consolidated financial statements.

RUSORO MINING LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010
(Expressed in thousands, except per share amounts) (US Dollars) - unaudited

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss) for the period	7,432	34	(100,841)	(4,977)
Items not involving cash				
Amortization	5,342	2,991	17,717	8,870
Stock-based compensation (Note 11(b))	1,019	362	1,358	6,451
Warrants committed in sale transaction	(1,332)	-	-	-
Accretion of interest on convertible loan (Note 10)	726	1,432	2,900	4,050
Unrealized foreign exchange loss	(1,007)	2,375	103,790	393
Impairment of mineral properties	-	383	-	557
Allowance for receivables (Note 4)	-	-	1,792	-
Accretion of asset retirement obligations	319	283	879	765
(Recovery) of provision for future income taxes	(8,991)	4,484	(20,205)	(4,753)
	<u>3,508</u>	<u>12,344</u>	<u>7,390</u>	<u>11,356</u>
Receivables non-current	402	(5,480)	2,568	(3,270)
Accrual for termination benefits non-current	-	156	(915)	452
Changes in non-cash working capital items (Note 15)	<u>4,177</u>	<u>(2,817)</u>	<u>27,210</u>	<u>167</u>
	<u>8,087</u>	<u>4,203</u>	<u>36,253</u>	<u>8,705</u>
INVESTING ACTIVITIES				
Expenditures on mineral properties	(2,814)	(3,493)	(7,894)	(8,427)
Expenditures on property, plant and equipment	(2,739)	(3,064)	(4,667)	(5,501)
Purchase of short-term investments	-	(14,181)	-	(26,619)
Redemption of short-term investments	-	-	3,806	4,999
	<u>(5,553)</u>	<u>(20,738)</u>	<u>(8,755)</u>	<u>(35,548)</u>
FINANCING ACTIVITIES				
Proceeds for warrants committed (Note 11(c)(ii))	330	-	330	-
Gross proceeds from shares issued in public offering (Note 11(a)(ii))	-	-	-	64,636
Share issue costs (Note 11(a)(ii))	-	-	-	(4,355)
Convertible loan restructuring costs (Note 10)	(800)	-	(838)	-
Convertible loan repayments (Note 10)	-	-	(30,000)	-
Repayment of note payable	-	-	-	(500)
	<u>(470)</u>	<u>-</u>	<u>(30,508)</u>	<u>59,781</u>
Impact of foreign exchange rate changes on cash	<u>-</u>	<u>788</u>	<u>138</u>	<u>349</u>
INCREASE (DECREASE) IN CASH	<u>2,064</u>	<u>(15,747)</u>	<u>(2,872)</u>	<u>33,287</u>
Cash – beginning of period	5,484	51,279	10,420	2,245
CASH – END OF PERIOD	<u>7,548</u>	<u>35,532</u>	<u>7,548</u>	<u>35,532</u>

Supplemental cash flow information (Note 15)

See accompanying notes to the interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

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

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

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

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

Management believes sufficient funds will be available including cash and cash from operations to meet the Company’s obligations and for capital asset expenditures to increase production prior to the required debt principal repayment of \$30,000 in June of 2011. The debt principal repayment of \$30,000 in June of 2011 is required to be made by the Company under the loan agreement entered into with a syndicate of private lenders (“the Lenders”) in June of 2008 and which was restructured in June of 2010 (“the Loan”) (Note 10). Management does not believe the funds described above will be sufficient to make the required debt principal repayment in June of 2011. This is a result of the Company not maintaining gold production at the optimal level as the Company postponed capital asset expenditures due to delays in receiving export permits until October of 2010 and conservation of cash for loan repayments made in June of 2010.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Presentation and Principles of Consolidation

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

RUSORO MINING LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
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Under Section 1582, the definition of a business is expanded, acquisition related costs, other than costs to issue debt or equity securities, of the acquirer, will no longer be capitalized, but rather expensed as incurred and the assets acquired and liabilities assumed are recorded at 100% of fair value even if less than 100% is obtained. Under Section 1602, non-controlling interests are classified as part of equity and net income or loss and total comprehensive income or loss will include the portion attributable to non-controlling interests. The provisions of Section 1602 have been applied prospectively with exception of the presentation and disclosure provisions, which have been applied for all prior periods presented in the financial statements. The presentation and disclosure provisions resulted in the classification of non-controlling interests as a separate component of equity on the balance sheet amounting to \$1,224 as at September 30, 2010 (December 31, 2009: \$208).

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

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

In October of 2005, the Venezuelan government enacted the Criminal Exchange Law, which imposes sanctions on the exchange of Venezuelan Bolivar Fuerte ("BsF") with foreign currency unless the exchange is made by officially designated methods. The exchange regulations did not apply to transactions with certain securities denominated in BsF, which could be swapped for securities denominated in another currency effectively resulting in a swap market ("the Swap Market") which provided an implicit value for the exchange rate for the BsF/US dollar ("the Implicit Exchange Rate").

Effective May 17, 2010, the Venezuelan government enacted the Reform of the Criminal Exchange Law which aimed to regulate the Swap Market. The Reform of the Criminal Exchange Law effectively closed the Swap Market and therefore the Company is unable to use the Implicit Exchange Rate to translate BsF transactions and balances subsequent to May 17, 2010. On June 9, 2010 the Venezuelan government enacted additional reforms to its exchange control regulations and introduced Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME") a newly regulated foreign exchange system controlled by the Central Bank of Venezuela ("the CBV"). The SITME imposes volume restrictions on the conversion of BsF to US dollars of \$350 per month per Venezuelan entity that meets the SITME requirements; Promotora Minera de Guayana, P.M.G., S.A. has been registered with SITME.

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

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

4. RECEIVABLES

	September 30, 2010	December 31, 2009
	\$	\$
VAT receivable (a)	20,723	12,943
Trade receivable (b)	2,113	-
Receivable from mining contractor (c)	1,120	1,172
Other receivables (d)	4,112	2,079
Receivables from related companies (Note 13)	283	204
Total receivables	<u>28,351</u>	<u>16,398</u>
Non-current VAT receivable (e)	(11,826)	(12,335)
Non-current receivable from mining contractor (f)	<u>(448)</u>	<u>(706)</u>
Non-current receivables	<u>(12,274)</u>	<u>(13,041)</u>
Current receivables	<u>16,077</u>	<u>3,357</u>

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

5. INVENTORIES

	September 30, 2010	December 31, 2009
	\$	\$
Finished gold	10,293	37,858
Gold in process	4,485	2,226
Gold in stockpile	10,306	6,754
Materials and supplies	6,867	6,147
	<u>31,951</u>	<u>52,985</u>

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

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

6. PROPERTY, PLANT, AND EQUIPMENT

	September 30, 2010		
	Cost	Accumulated Amortization and Depletion	Net Book Value
	\$	\$	\$
Mining properties	606,985	(14,681)	592,304
Mining plant and equipment	113,484	(43,094)	70,390
Office and computer equipment	382	(188)	194
Construction in progress	6,389	-	6,389
	727,240	(57,963)	669,277

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

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

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

	Mining Properties			Property, Plant and Equipment (excluding mining properties)	September 30, 2010	December 31, 2009
	Depletable \$	Non- Depletable(*) \$	Total \$			
Choco Mine	53,088	507,852	560,940	65,553	626,493	630,589
Isidora Mine	1,530	29,834	31,364	7,060	38,424	39,991
Other Venezuelan properties	-	-	-	4,166	4,166	4,357
Corporate head office	-	-	-	194	194	248
	54,618	537,686	592,304	76,973	669,277	675,185

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

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

7. MINERAL PROPERTIES

	San Rafael El Placer	Increible 6	El Callao	Valle Hondo	Other Properties	Total
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2008	25,192	61,905	149,223	23,161	15,090	274,571
Exploration and development costs	9,077	957	-	497	-	10,531
Impairment of mineral properties	-	-	(5,087)	-	(5,867)	(10,954)
Unrealized foreign exchange gain	-	-	(6,754)	-	(219)	(6,973)
Balance, December 31, 2009	34,269	62,862	137,382	23,658	9,004	267,175
Exploration and development costs	7,547	741	-	49	247	8,584
Balance, September 30, 2010	41,816	63,603	137,382	23,707	9,251	275,759

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2010	December 31, 2009
	\$	\$
Accounts payable	13,382	7,557
Accrued liabilities	41,419	19,571
Accrual for termination benefits	7,400	2,135
Accrual for interest on convertible loan (Note 10)	165	350
Current portion of asset retirement obligations	322	250
Due to related parties (Note 13)	232	96
	<u>62,920</u>	<u>29,959</u>

9. DEFERRED REVENUE

The Company received a payment of \$6,933 which represents full payment for the future delivery of 6.5 ounces of finished gold and the commitment to issue 12,355 share purchase warrants (Note 11(c)(ii)). The Company is required to deliver this finished gold prior to January 11, 2011. As at September 30, 2010, no finished gold related to this advance has been delivered.

10. CONVERTIBLE LOAN

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

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

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

On June 10, 2010, the Company made a \$17,000 principal payment and restructured the remaining \$43,000 principal portion of the Loan. The restructured terms required the Company to make a second principal payment of \$13,000 including accrued interest at a contractual rate of 10% per annum on or before July 10, 2010 and a final principal payment of \$30,000 ("the Reduced Principal") on or before June 10, 2011. The Reduced Principal bears interest at a contractual rate of 10% per annum (effective annual interest rate of 21.1% including costs of restructuring) and interest is payable quarterly. Based on the restructured terms the conversion price of the Reduced Principal was adjusted to \$0.40 (subject to adjustment depending on future equity financings and other transactions entered into by the Company), the Company issued 30,000 warrants (Note 11(c)(i)) to the Lenders and the Company can repay the Loan at any time by repaying the outstanding principal in full plus interest accrued to the repayment date. All other terms of the Loan remain unchanged. On June 22, 2010, the Company paid the second principal payment of \$13,000 including related accrued interest.

Loan restructuring costs include \$873 related to the issuance of 30,000 warrants (Note 11(c)(i)) and other costs of \$838. The Loan balance was reduced by the \$1,223 increase in the fair value of the equity component of convertible loan due to the restructuring of the Loan with a corresponding increase in contributed surplus. Equity component of convertible loan of \$2,367 was transferred to contributed surplus due to the extinguishment of the conversion option to shares of the portion of the Loan that was repaid by the principal repayments of \$17,000 on June 10, 2010 and \$13,000 on June 22, 2010. The Reduced Principal is due in June of 2011.

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

	\$
Equity component at December 31, 2009	4,733
Extinguishment of conversion option to shares	(2,367)
Equity component at September 30, 2010	<u>2,366</u>
	\$
Liability component at December 31, 2009	57,935
Accretion of interest	2,900
Loan repayments	(30,000)
Increase in fair value of equity component	(1,223)
Loan restructuring costs	(1,711)
Liability component at September 30, 2010	<u>27,901</u>

11. SHARE CAPITAL

Authorized Share Capital of the Company

Unlimited number of common shares without par value.

(a) Issued Capital

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

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

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

(b) Stock Options

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

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

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Number of Options Outstanding and Exercisable</u>	<u>Weighted Average Exercise Price</u>
C\$0.20	10,210	C\$0.20	8.57	9,820	C\$0.20
C\$0.60	15,230	C\$0.60	8.36	14,923	C\$0.60
C\$1.11 – C\$1.70	15,357	C\$1.31	7.62	15,357	C\$1.31
C\$2.12 – C\$2.30	7,150	C\$2.19	6.32	7,150	C\$2.19
\$3.00	4,825	\$3.00	6.01	4,825	\$3.00
	<u>52,772</u>	<u>\$1.14</u>	<u>7.69</u>	<u>52,075</u>	<u>\$1.15</u>

Stock option transactions are summarized as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price \$</u>
Outstanding, December 31, 2008	35,338	1.61
Issued	16,230	0.50
Expired	(352)	0.99
Forfeited	(70)	0.57
Outstanding, December 31, 2009	<u>51,146</u>	<u>1.32</u>
Issued	5,366	0.19
Forfeited	(3,740)	1.66
Outstanding September 30, 2010	<u>52,772</u>	<u>1.14</u>

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

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

	<u>2010</u>	<u>2009</u>
Assumptions		
Dividend yield	0%	0%
Annualized volatility	55%	100% - 109%
Risk-free interest rate	2.87%	1.28% - 3.01%
Expected life (years)	10.0	2 - 10.0
Weighted average grant date fair value per option	\$0.13	\$0.35

During the three-month and nine-month periods ended September 30, 2010, the Company amended the exercise price of 4,844 stock options with original prices ranging from C\$0.60 - \$3.00 to C\$0.20. During the nine-month period ended September 30, 2009, the Company amended the exercise price of 3,610 stock options with original prices ranging from C\$1.31 - \$3.00 to C\$0.60.

(c) Warrants

(i) Share Purchase Warrants

	Amount \$
Balance, December 31, 2009	64,737
Share Purchase Warrants	873
Balance, September 30, 2010	<u><u>65,610</u></u>

On August 13, 2010 the Company issued 30,000 share purchase warrants to the Lenders as a result of the restructuring of the Loan (Note 10).

Share purchase warrant transactions are summarized as follows:

	Number of Share Purchase Warrants	Weighted Average Exercise Price \$
Outstanding, December 31, 2009	108,800	3.88
Issued	30,000	0.39
Outstanding September 30, 2010	<u><u>138,800</u></u>	<u><u>3.19</u></u>

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

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

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

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

<u>Number of Share Purchase Warrants Outstanding and Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
5,833	\$3.35	November 7, 2011
30,000	C\$0.40	December 10, 2011
9,217	C\$5.25	March 4, 2012
93,750	C\$4.00	November 30, 2012
<u>138,800</u>		

(ii) Share Purchase Warrants Committed

	<u>Amount</u> <u>\$</u>
Balance, December 31, 2009	-
Share purchase warrants committed	330
Balance, September 30, 2010	<u>330</u>

During the nine-month period ended September 30, 2010, the Company committed to issuing 12,355 share purchase warrants to a gold buyer as an inducement related to an advance for the delivery of finished gold (Note 9). These share purchase warrants will be exercisable on issuance and are subject to regulatory approval.

Share purchase warrants committed transactions are summarized as follows:

	<u>Number of Share Purchase Warrants</u>	<u>Weighted Average Exercise Price</u> <u>\$</u>
Committed, December 31, 2009	-	-
Committed	12,355	0.39
Committed, September 30, 2010	<u>12,355</u>	<u>0.39</u>

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

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

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

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

<u>Number of Share Purchase Warrants Committed</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
12,355	C\$0.40	November 10, 2011
<u>12,355</u>		

(d) Contributed Surplus

	<u>Amount</u> <u>\$</u>
Balance, December 31, 2008	50,070
Stock-based compensation	6,867
Balance, December 31, 2009	<u>56,937</u>
Stock-based compensation	1,358
Extinguishment of conversion option to shares (Note 10)	2,367
Increase in fair value of equity component of the Loan (Note 10)	1,223
Balance, September 30, 2010	<u><u>61,885</u></u>

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss are as follows:

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

13. RELATED PARTY TRANSACTIONS

- a) Included in receivables (Note 4) are amounts owed from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively of \$283 (December 31, 2009: \$204). These amounts are unsecured and non-interest bearing with no set terms of repayment.
- b) Included in amounts capitalized as property, plant and equipment is \$Nil (December 31, 2009: \$1,094) and included in amounts capitalized as mineral properties is \$162 (December 31, 2009: \$380) related to the provision of technical and geological services and machinery rental from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively.
- c) On February 20, 2009, the Company issued a promissory note to a director/officer of the Company for \$500 related to an advance for the purchase of a plant for the treatment of diamonds. The promissory note was unsecured, non-interest bearing and repayable at a time agreeable to the Company and the director/officer. On May 19, 2009, the Company repaid the promissory note.
- d) Included in accounts payable and accrued liabilities (Note 8) are amounts due to companies which a director/officer of the Company and a director of the Company are an officer and a director, respectively and to a law firm of which a director of the Company is a partner of \$232 (December 31, 2009: \$96). These amounts are unsecured, due on demand and non-interest bearing.
- e) Included in general and administrative expenses is \$Nil (2009: \$Nil) for the three-month period and \$Nil (2009: \$34) for the nine-month period ended September 30, 2010 related to the cost of running the Company's office of representation in Moscow from a company of which a director/officer of the Company has significant influence and \$27 (2009: \$27) for the three-month period and \$82 (2009: \$74) for the nine-month period ended September 30, 2010 related to the rental of the Caracas office from companies of which a director/officer of the Company and a director of the Company, are an officer and a director, respectively.
- f) Included in convertible loan (Note 10) is financing costs of \$80 (December 31, 2009: \$Nil), included in share capital (Note 11(a)(ii)) is share issuance costs of \$Nil (December 31, 2009: \$23), included in general and administrative expenses is \$3 (2009: \$40) for the three-month period and \$90 (2009: \$106) for the nine-month period ended September 30, 2010 and included in litigation and unsuccessful acquisition costs is \$Nil (2009: \$Nil) for the three-month period and \$Nil (2009: \$190) for the nine-month period ended September 30, 2010 related to the provision of legal services which were paid to a law firm of which a director of the Company is a partner.

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

14. CAPITAL MANAGEMENT DISCLOSURES

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

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

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

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

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
CHANGES IN NON-CASH WORKING CAPITAL ITEMS				
Receivables	(1,736)	4,776	(8,792)	3,978
Inventories	2,288	(4,695)	13,873	(10,719)
Prepaid expenses and deposits	(4,286)	(2,340)	(5,604)	1,074
Accounts payable and accrued liabilities	7,365	3,298	20,254	(2,086)
Deferred revenue	(330)	(3,326)	6,603	-
Income taxes payable	876	(530)	876	7,920
	<u>4,177</u>	<u>(2,817)</u>	<u>27,210</u>	<u>167</u>

	Three Months Ended September 30,		Nine Months Ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Accounts payable and accrued liabilities – Expenditures on mineral properties	(118)	(391)	(179)	(2,552)
Accounts payable and accrued liabilities – Expenditures on property, plant and equipment	583	(135)	1,341	(55)
Amortization capitalized – Mineral properties	213	224	869	1,304
Stock based compensation capitalized – Mineral Properties	-	137	-	174
Shares issued to financial advisor (Note 11(a)(i))	-	-	-	1,250
Warrants issued on Loan restructuring (Note 10)	-	-	873	-

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS				
Interest paid	750	-	3,793	4,000
Taxes paid	-	-	-	1,652

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

16. SEGMENTED DISCLOSURE

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

	Choco Mine Three Months Ended September 30, 2010 \$	Isidora Mine Three Months Ended September 30, 2010 \$	Exploration and Development Three Months Ended September 30, 2010 \$	Corporate Three Months Ended September 30, 2010 \$	Total Three Months Ended September 30, 2010 \$
Revenues	32,868	9,820	-	-	42,688
Mining operating expenses	(23,557)	(10,552)	-	-	(34,109)
Mining amortization	(3,710)	(1,632)	-	-	(5,342)
General and administrative	-	-	(686)	(2,013)	(2,699)
Stock-based compensation	-	-	-	(1,019)	(1,019)
Income (loss) from operations	5,601	(2,364)	(686)	(3,032)	(481)
Capital asset expenditures	2,436	286	2,831	-	5,553

	Choco Mine Three Months Ended September 30, 2009 \$	Isidora Mine Three Months Ended September 30, 2009 \$	Exploration and Development Three Months Ended September 30, 2009 \$	Corporate Three Months Ended September 30, 2009 \$	Total Three Months Ended September 30, 2009 \$
Revenues	22,261	4,150	-	-	26,411
Mining operating expenses	(9,036)	(2,372)	-	-	(11,408)
Mining amortization	(2,841)	(150)	-	-	(2,991)
General and administrative	-	-	(340)	(1,798)	(2,138)
Stock-based compensation	-	-	-	(362)	(362)
Income (loss) from operations	10,384	1,628	(340)	(2,160)	9,512
Capital asset expenditures	1,359	1,703	3,493	2	6,557

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

	Choco Mine Nine Months Ended September 30, 2010 \$	Isidora Mine Nine Months Ended September 30, 2010 \$	Exploration and Development Nine Months Ended September 30, 2010 \$	Corporate Nine Months Ended September 30, 2010 \$	Total Nine Months Ended September 30, 2010 \$
Revenues	92,922	17,253	-	-	110,175
Mining operating expenses	(74,273)	(16,744)	-	-	(91,017)
Mining amortization	(14,981)	(2,736)	-	-	(17,717)
General and administrative	-	-	(1,612)	(6,314)	(7,926)
Stock-based compensation	-	-	-	(1,358)	(1,358)
Income (loss) from operations	3,668	(2,227)	(1,612)	(7,672)	(7,843)
Capital asset expenditures	3,615	342	8,604	-	12,561
	Choco Mine Nine Months Ended September 30, 2009 \$	Isidora Mine Nine Months Ended September 30, 2009 \$	Exploration and Development Nine Months Ended September 30, 2009 \$	Corporate Nine Months Ended September 30, 2009 \$	Total Nine Months Ended September 30, 2009 \$
Revenues	57,052	10,704	-	-	67,756
Mining operating expenses	(26,637)	(8,697)	-	-	(35,334)
Mining amortization	(7,752)	(1,118)	-	-	(8,870)
General and administrative	-	-	(1,113)	(4,835)	(5,948)
Stock-based compensation	-	-	-	(6,451)	(6,451)
Income (loss) from operations	22,663	889	(1,113)	(11,286)	11,153
Capital asset expenditures	3,053	2,440	8,427	8	13,928

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Customer A	41,709	-	91,918	-
Customer B	-	25,263	16,536	46,527
Customer C	-	-	-	11,993

The Company's geographic segment information is as follows:

	Choco Mine September 30, 2010	Isidora Mine September 30, 2010	Exploration and Development September 30, 2010	Corporate September 30, 2010	Total September 30, 2010
	\$	\$	\$	\$	\$
Assets					
Current assets	45,398	14,218	8,956	696	69,268
Receivables non-current	9,106	-	3,168	-	12,274
Property, plant and equipment	626,493	38,424	4,166	194	669,277
Mineral properties	-	-	275,759	-	275,759
	<u>680,997</u>	<u>52,642</u>	<u>292,049</u>	<u>890</u>	<u>1,026,578</u>

	Choco Mine December 31, 2009	Isidora Mine December 31, 2009	Exploration and Development December 31, 2009	Corporate December 31, 2009	Total December 31, 2009
	\$	\$	\$	\$	\$
Assets					
Current assets	47,901	11,616	5,486	13,653	78,656
Receivables non-current	11,110	-	1,931	-	13,041
Property, plant and equipment	630,589	39,991	4,357	248	675,185
Mineral properties	-	-	267,175	-	267,175
	<u>689,600</u>	<u>51,607</u>	<u>278,949</u>	<u>13,901</u>	<u>1,034,057</u>

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

17. JOINT VENTURE INTEREST

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

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

	September 30, 2010		December 31, 2009	
	\$		\$	
Assets				
Current assets	14,218		12,081	
Property, plant and equipment	38,424		39,991	
Mineral properties	184		184	
	52,826		52,256	
Liabilities				
Current liabilities	11,246		5,932	
Other long-term liabilities	1,534		1,587	
Future income tax liability	16,612		12,554	
	29,392		20,073	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	\$		\$	
Revenue	9,820	4,150	17,253	10,704
Expenses and other	(10,192)	(2,426)	(16,769)	(9,355)
Foreign exchange (loss) gain	(326)	2	(7,654)	(10)
Net (loss) income	(698)	1,726	(7,170)	1,339
Cash Flows (Outflows)				
Operating activities	2,925	383	4,360	2,695
Investing activities	(286)	(1,656)	(342)	(2,474)
Financing activities	1,751	-	1,751	-
Increase (decrease) in cash	4,390	(1,273)	5,769	221

18. COMMITMENTS AND CONTINGENCIES

(a) Commitments

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

	Total \$
2010	2,458
2011	10,914
2012	3,460
2013	3,460
2014 and thereafter	18,695
	<hr/> 38,987 <hr/>

(b) Contingencies

(i) Gold Reserve Lawsuit

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

In December 2008 Gold Reserve commenced a claim against the Company and an advisor of the Company ("the Advisor") seeking an injunction to restrain the Company's unsolicited take-over bid for Gold Reserve as well as general damages of \$500,000 and punitive damages of \$50,000 on the basis that the Advisor improperly used Gold Reserve's confidential information in advising the Company on the take-over bid. In February 2009, Gold Reserve obtained an interlocutory injunction to restrain the take-over bid. The Company subsequently served its defense and counterclaim in which it denied the allegations against it and sought damages of \$102,500 in respect of losses it has sustained as a result of the injunction's issuance.

In June 2010 Gold Reserve amended its claim. The amended claim now seeks from the Company general damages of \$150,000 for trespass, conversion, and interference with contractual and economic relations, as well as punitive damages of \$50,000. The claim against the Advisor has also been reduced to a total of \$200,000. The outcome of this matter is not determinable at this time and no amount has been accrued in these consolidated financial statements for this claim.

(ii) Non-Compliance

During June 2010 the Company entered transactions in the normal course of operations that were not in compliance with certain Venezuelan laws and regulations. As a result of this non-compliance the Company may be subject to fines to a maximum of \$15,000 and/or denial of the Company's ability to generate revenues. Management is currently evaluating alternative actions in order to remediate this non-compliance. No amount has been accrued in these financial statements in connection with this matter since the outcome cannot be determined at this time.

(iii) Other Matters

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

19. FINANCIAL INSTRUMENTS

(a) Financial Assets and Liabilities

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

The carrying amounts of cash, short-term investments, receivables, accounts payable and accrued liabilities and accrual for termination benefits are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. Management reviewed all significant financial instruments held by the Company and determined that no significant differences between fair value and carrying value existed as at September 30, 2010, except for the liability component of the convertible loan which has a fair value of \$28,029 (December 31, 2009: \$58,403).

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

(b) Financial Instrument Risk Exposure

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

Credit Risk

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

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

Liquidity Risk

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

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

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

	2010 \$	2011-2012 \$	Total \$
Accounts payable and accrued liabilities	62,755	-	62,755
Interest on convertible loan	750	1,500	2,250
Convertible loan	-	30,000	30,000
	63,505	31,500	95,005

Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at September 30, 2010, a 1% increase in interest rates would decrease the fair value of convertible loan by \$170 and a 1% decrease in interest rates would increase the fair value of the convertible loan by \$173.

(ii) Currency Risk

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

The Company's Venezuelan operations and cash holdings are currently subject to currency and exchange controls. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US Dollars out of the country including for US Dollar operating and capital expenditures. As at September 30, 2010, the Company holds cash of \$6,900 (December 31, 2009: \$667) in BsF.

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

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

	As at September 30, 2010	
	25% Increase in the BsF ₡	25% Decrease in the BsF ₡
Net earnings	(7,422)	5,938

	As at September 30, 2010	
	10% Increase in the C\$ ₡	10% Decrease in the C\$ ₡
Net earnings	(29)	26

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

On November 17, 2010 the Company exported 4.924 ounces of finished gold at the international spot price per ounce less associated costs and commissions.