## General

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 and nine months ended September 30, 2009 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, 2008. 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. 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, 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.

## Business 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 producing Choco gold mine ("the Choco Mine") and a 50% interest in the producing 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 office of representation in Moscow, Russia and an in country corporate office in Caracas, Venezuela.

## Corporate Development Highlights

The Company's highlights for the third quarter of 2009 were:

- Cash cost per ounce sold of $288 (2008: $805)
- Gold production of 35,376 ounces of gold (2008: 22,082 ounces)
- Cash inflow (outflow) from operations of $4.2 million (2008: ($1.8) million)
- Advanced construction of the Alvarez underground ramp which will provide access to the main mineralized areas in the contiguous San Rafael and El Placer concessions ("SREP"). Construction is on track towards the goal of intercepting the main mineralized zone in Q1 2010.
- As at September 30, 2009 gold inventories comprise 35,374 ounces of gold bars, 2,298 ounces of gold in circuit and 26,634 ounces of gold-stockpile.

## Key Operating Statistics for the Choco Mine and Isidora Mine:

The data below is for 100% of the Choco Mine (open-pit mining operation) and 50% of the Isidora Mine (underground mining operation).

| | 3 Months Ended September 30, 2009 | | | 3 Months Ended September 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Choco | Isidora | Total | Choco | Isidora | Total |
| Ore tonnes mined ('000 t) | 666 | 9 | 675 | 569 | n/a | 569 |
| Ore tonnes milled ('000 t) | 498 | 9 | 507 | 567 | n/a | 567 |
| Average grade (g/t) | 1.87 | 25.83 | 2.30 | 1.92 | n/a | 1.92 |
| Average recovery rate (%) | 93% | 90% | 93% | 87% | n/a | 87% |
| Gold produced (ounces) | 29,456 | 5,920 | 35,376 | 22,082 | n/a | 22,082 |
| Gold sold (ounces) | 32,502 | 6,019 | 38,521 | 21,755 | n/a | 21,755 |
| Total mining operating expenses $(000) | 9,036 | 2,372 | 11,408 | 21,082 | n/a | 21,082 |
| - asset retirement obligations accretion $(000) | (97) | (67) | (164) | (292) | n/a | (292) |
| - impairment of inventories $(000) | - | - | - | (3,274) | n/a | (3,274) |
| - fair value differential of inventory acquired $(000)[1] | - | (156) | (156) | - | n/a | - |
| Total cash costs $(000)[2] | 8,939 | 2,149 | 11,088 | 17,516 | n/a | 17,516 |
| Total cash costs per ounce sold $[3] | 275 | 357 | 288 | 805 | n/a | 805 |
| Average spot gold price $ | n/a | n/a | 934 | n/a | n/a | 825 |
| Average realized gold price $[4] | n/a | n/a | 686 | n/a | n/a | 676 |
| Discount to spot gold price[4] | n/a | n/a | 27% | n/a | n/a | 18% |
| Official exchange rate (BsF to US Dollar) | n/a | n/a | 2.15 | n/a | n/a | 2.15 |
| Average implicit exchange rate (BsF to US Dollar) | n/a | n/a | 6.47 | n/a | n/a | 3.75 |

| | 9 Months Ended September 30, 2009 | | | 9 Months Ended September 30, 2008 | | |
|---|---|---|---|---|---|---|
| | **Choco** | **Isidora** | **Total** | **Choco** | **Isidora** | **Total** |
| Ore tonnes mined ('000 t) | 1,934 | 26 | 1,960 | 1,656 | n/a | 1,656 |
| Ore tonnes milled ('000 t) | 1,619 | 27 | 1,646 | 1,812 | n/a | 1,812 |
| Average grade (g/t) | 2.03 | 24.53 | 2.40 | 1.56 | n/a | 1.56 |
| Average recovery rate (%) | 90% | 90% | 90% | 87% | n/a | 87% |
| Gold produced (ounces) | 103,924 | 19,478 | 123,402 | 72,184 | n/a | 72,184 |
| Gold sold (ounces) | 82,124 | 15,513 | 97,637 | 74,757 | n/a | 74,757 |
| Total mining operating expenses $(000) | 26,637 | 8,697 | 35,334 | 52,862 | n/a | 52,862 |
| - asset retirement obligations accretion $(000) | (342) | (191) | (533) | (430) | n/a | (430) |
| - impairment of inventories $(000) | - | - | - | (3,551) | n/a | (3,551) |
| - fair value differential of inventory acquired $(000)(1) | - | (3,431) | (3,431) | - | n/a | - |
| Total cash costs $(000)(2) | 26,295 | 5,075 | 31,370 | 48,881 | n/a | 48,881 |
| Total cash costs per ounce sold(3) | 320 | 327 | 321 | 654 | n/a | 654 |
| Average spot gold price $ | n/a | n/a | 918 | n/a | n/a | 897 |
| Average realized gold price $(4) | n/a | n/a | 694 | n/a | n/a | 663 |
| Discount to spot gold price(4) | n/a | n/a | 24% | n/a | n/a | 26% |
| Official exchange rate (BsF to US Dollar) | n/a | n/a | 2.15 | n/a | n/a | 2.15 |
| Average implicit exchange rate (BsF to US Dollar) | n/a | n/a | 6.31 | n/a | n/a | 4.09 |

The following notes are applicable to the above two tables.

1) 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.
2) 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, impairment of inventories, 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.
3) 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 incurred at the mine site such as mining, processing, administration, royalties and production taxes but excludes reclamation, capital and exploration expenditures, adjustment to 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.
4) Average realized gold price is impacted by a discount to spot price of gold as indicated under the heading "Venezuelan Currency Exchange and Gold Sales" and by the timing of gold sales. Due to the Central Bank of Venezuela ("the CBV") resolutions discussed under the heading "Venezuelan Currency Exchange and Gold Sales" the Company did not conduct gold sales in August or September of 2009. As the Company did not conduct gold sales in August or September of 2009, the average spot gold price reported for the three months ended September 30, 2009 is the July 2009 average spot gold price and for the nine months ended September 30, 2009 is the January – July 2009 average spot gold price.

## 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 Venezuelan Bolivar Fuerte ("BsF") and modified the currency by fixing the official rate at BsF 2.15 /$1.00). In October of 2005, the 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 do not apply to transactions with certain securities denominated in BsF which can be swapped for securities denominated in another currency effectively resulting in a swap market which provides an implicit value for the exchange rate for the BsF / US Dollar ("Implicit rate" or "Implicit Exchange Rate").

For the three and nine month periods ended September 30, 2009, the Company concluded that the Implicit Rate was the most appropriate rate to use to translate BsF denominated transactions and balances of the Company's subsidiaries into US Dollars.

The Implicit Rate is volatile and has been consistently higher than the official rate.

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 mandates that 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 must be allocated to the domestic market, of which 60% must be offered for sale to the CBV and 10% must be offered for sale to the domestic processing industry. The remaining 30% of the gold produced in Venezuela can be exported or offered for sale to the CBV, at the option of the gold producer. 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 must be allocated to the domestic market of which 25% must be offered for sale to the CBV and 25% must be offered for sale to the domestic processing industry. The remaining 50% can be exported or offered for sale to the CBV, at the option of the gold producer. Although Resolution No. 09-06-03 requires gold producers to offer the gold for sale to the CBV, it does not mandate the terms of such an offer.

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 of BsF 2.15/$1.00. The CBV and the Ministry of Finance recently passed Exchange Agreement No. 12 which provides more flexibility for companies in which the Venezuelan State has an interest of 50% or greater as they may keep bank accounts abroad in foreign currency and use the currency received from gold exports to make direct payments in foreign currency. Companies in which the Venezuelan State has no interest or less than 50% interest, are not covered by Exchange Agreement No. 12.

The Company believes that the above resolution applies to gold bars produced after June 30, 2009 and therefore the gold bars in ending inventory at June 30, 2009 were sold during Q3 2009 domestically to private buyers outside the scope of the above resolutions. During the three-month period ended September 30, 2009 the Company did not sell gold produced in the three-month period ended September 30, 2009.

During the three and nine month periods ended September 30, 2009 and during 2008, with the Implicit Rate materially above the official rate, the Company did not export its gold but rather sold 100% of it domestically to private buyers in BsF based on the US Dollar spot gold price minus the discount on the date the sale was negotiated with payment received in BsF at the Implicit Rate.

Subsequent to September 30, 2009 the Company sold domestically to private buyers the percentage of Q3 2009 production which the Company is able to allocate to the domestic processing industry without violating the above resolutions, should they continue to remain in force. Depending on the outcome of the application of the above resolution the carrying value of the Company's assets including property, plant and equipment, inventories and mineral properties may be materially negatively impacted.

Gold inventories with a net book value of $28.2 million as at September 30, 2009 comprise 35,374 ounces of gold bars, 2,298 ounces of gold in circuit and 26,634 ounces of gold-stockpile. Of these gold inventories, Choco Mine comprise 29,456 ounces of gold bars, 123 ounces of gold in circuit and 23,286 ounces of gold-stockpile; Isidora Mine comprise 5,918 ounces of gold bars, 2,175 ounces of gold in circuit and 3,348 ounces of gold-stockpile. Gold bars as at November 25, 2009 total 45,356 ounces including 37,729 ounces produced at the Choco Mine and 7,627 ounces produced at the Isidora Mine.

## Joint Venture

On July 8, 2008, the Company closed the transaction to acquire from Hecla Mining Company ("Hecla") 100% of the outstanding shares of El Callao Gold Mining Company and Drake-Bering Holdings B.V. (the "Hecla-Venezuela Acquisition") including their subsidiaries Minera Rusoro Venezolana C.A. ("Minera Rusoro") (formerly Minera Hecla Venezolana C.A.) and El Callao Gold Mining Company de Venezuela, SCS ("El Callao Gold Mining").

On July 4, 2008, prior to the closing of the Hecla-Venezuela Acquisition the Company entered into an agreement ("the Mixed Enterprise Agreement") with the Venezuelan Ministry of Mines and Basic Industries ("MIBAM") to create a mixed enterprise. The objective of the mixed enterprise is to carry on with gold exploration, development and operation of the Isidora Mine and exploration properties acquired in the Hecla-Venezuela Acquisition and the operation of the La Camorra mill. The La Camorra mill is an operating mill located in the El Callao district for the processing of gold which was formerly owned by Hecla and is to be contributed to the mixed enterprise by Empresa De Produccion Social Minera Nacional C.A. ("EMN") which is a company owned indirectly by MIBAM. The activities of the mixed enterprise are carried out through Minera Venrus C.A., ("Venrus C.A.") a Venezuelan corporation incorporated on December 23, 2008 which is 50% owned by the Company and 50% owned by EMN. Based on the articles of incorporation and by-laws of Venrus C.A., the Company and EMN contractually agreed to share the continuing power to determine the strategic operating, investing and financing policies of Venrus C.A.

The nature of the assets to be effectively contributed into Venrus C.A. and the timing of their contribution is still pending. Due to the existing Mixed Enterprise Agreement that requires the contribution of the assets into Venrus C.A. and also requires that the Company pledge 50% of its shares in Minera Rusoro and El Callao Gold Mining in favour of the Venezuelan government until that contribution occurs, and due to the ongoing collaboration of the Venezuelan government in determining the strategic operating, investing and financing policies of the assets acquired in the Hecla-Venezuela Acquisition, management has determined that starting December 23, 2008 proportionate consolidation of 50% of the net assets acquired in the Hecla-Venezuela Acquisition is appropriate.

MIBAM has agreed in the Mixed Enterprise Agreement to contribute the La Camorra mill to Venrus C.A. The La Camorra mill is for the processing of gold located in the El Dorado district. Since this contribution is pending and it is uncertain whether this contribution will be made, the Company's interest in the La Camorra mill has not been recognized. Should the La Camorra mill be contributed to Venrus C.A., the accounting treatment will be determined based on the facts and circumstances at the point of contribution. The Venezuelan government has had significant involvement in determining the terms and conditions associated with the Hecla-Venezuela Acquisition. Resolution of these terms and conditions have not yet been finalized due to uncertainty of the transfer of the La Camorra mill to Venrus C.A and uncertainty of the nature and timing of the contribution of other assets including the Isidora Mine to Venrus C.A.

Due to the delay in the contribution of the assets to Venrus C.A. as required in the Mixed Enterprise Agreement, additional agreements as described below were signed in Q3 2009 which allow Venrus C.A. to operate the assets acquired in the Hecla-Venezuela acquisition and the La Camorra mill for a period of one year from the dates of these agreements which are extendable in one year increments.

On September 17, 2009 a sublease agreement was entered between El Callao Gold Mining and Venrus C.A. which allows Venrus C.A. to perform exploration and exploitation activities in the Isidora Mine. Venrus C.A. will be obligated to pay required royalties and exploitation taxes, to comply with environmental obligations and to ensure the regular maintenance of the Isidora Mine. This agreement is for a period of one year from September 17, 2009 and is extendable in one year increments.

On September 8, 2009 an operation agreement was signed between EMN and Venrus C.A. which allows Venrus C.A. to operate the La Camorra mill. Venrus C.A. is responsible for preserving the condition of the La Camorra mill including repair of any environmental damage caused during the mill's operation. Upon termination of the operation agreement, the La Camorra mill including any related improvements will be returned to the Republica Bolivariana of Venezuela for $Nil monetary compensation. This agreement is for a period of one year from September 8, 2009 and is extendable in one year increments.

On September 17, 2009, a lending agreement was entered between Minera Rusoro and Venrus C.A. which allows Venrus C.A. to use the assets of Minera Rusoro in the performance of the operation of the Isidora Mine and La Camorra mill. This agreement is for a period of one year from September 17, 2009 and is extendable in one year increments.

The above agreements do not remove the uncertainty regarding the contribution of assets into Venrus C.A. as described above and the accounting treatment as described above is unchanged from previous periods.

## Operating Gold Mines

### Choco Mine

On November 30, 2007, the Company acquired a 95% ownership interest in the Choco Mine, located in the El Callao district of Venezuela. The Choco Mine's mineral rights have a 20-year term, which is subject to two 10-year extensions for a maximum term of 40 years.

The current 43-101 compliant gold reserves at the Choco Mine are 1.66 million ounces Au proven and probable reserves (15.4 million tonnes grading 3.4 g/t). Current 43-101 compliant resources are 4.45 million ounces Au measured and indicated (56.1 million tonnes grading 2.46 g/t) and 2.87 million ounces Au inferred (40.8 million tonnes grading 2.20 g/t). The technical information on the Choco Mine is detailed in a 43-101 compliant technical report titled "Technical Report on the PMG (Gold Fields) Choco 10 Concession and Mine, Estado Bolivar Venezuela" dated November 27, 2007. An updated 43-101 compliant resource estimate is scheduled to be completed in 2010.

In 2008, the Company initiated a scoping study for the Choco Mine and surrounding deposits. The scoping study was completed in May 2009. 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), 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 Increible 6 property (see Increible 6 Project below). The feasibility study is expected to be concluded during 2010.

Work during the remaining part of 2009 will include exploration and development activities including:

i) resource and reserve conversion at the Choco Mine and surrounding area (including the adjacent Increible 6 property) to support the oxide strategy (designed to outline additional oxide ore which will continue to be the main source of material over the next 2-3 years);

ii) resource and reserve conversion to support expanded production capacity (in approximately 3-4 years) and a feasibility study (refer to the Outlook section). Additionally work in 2009 will continue to evaluate other targets within the surrounding areas.

**<u>Isidora Mine</u>**

As described in the "Joint Venture" section above, 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.

The 43-101 compliant resources at the Isidora Mine 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. Existing gold resources for the Isidora Mine include the Isidora Deposit which has 330,000 ounces measured and indicated (470,000 tonnes grading 22.0 g/t) and 45,000 ounces inferred (100,000 tonnes grading 14.5 g/t) and for the Twin Shear Zone 482,000 ounces inferred (1,200,000 tonnes grading 12.5 g/t).

Exploration and development activities continue at the Isidora Mine with approximately 25,000 meters of drilling planned for 2009 directed at expanding the existing resources at the Isidora Mine. Drilling completed during Q3 2009 on the Isidora Mine totaled 7,963 meters (Q1: 6,170 meters and Q2: 6,229 meters) from a total of 21 drill holes (Q1: 12 holes and Q2: 12 holes).

## Mineral Properties

**<u>El Callao District</u>**

***Increible 6 Project***

The Increible 6 project is located in the El Callao district, eight kilometres northeast of the Choco Mine mill. Previous work at Increible 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 Au indicated (23.45 million tonnes grading 2.11 g/t) and 1.1 million ounces Au inferred (17.5 million tonnes grading 1.95 g/t). The technical information on Increible 6 is detailed in a 43-101 compliant technical report titled "Technical Report on the Increible 6 Property, Bolivar State, Venezuela" dated November 14, 2007, as revised February 14, 2008.

Exploration and development activities during Q3 2009 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 Q1, Q2 or Q3 2009. All zones remain open. The oxide portion of Increible 6 is included into the Choco Mine oxide strategy for near term exploitation. An updated 43-101 compliant resource estimate for Increible 6 is expected to be completed in 2010 as part of the feasibility study.

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 Q1 2010. As the required permit has not been granted as of November 25, 2009, the Company no longer expects to begin mining ore from Increible 6 during Q4 2009. During Q3 2009 the Company received the exploitation permit from MIBAM for mining at the Increible 6 Project (see news release dated September 11, 2009 which is available on SEDAR at www.sedar.com).

***Other El Callao Mineral Properties***

The Company holds the rights to several concessions in the area surrounding the Choco Mine totalling 26,644 ha. This area has a long history of gold exploration, development, and small scale gold mining. The Company's plan for the continued exploration of these properties is the definition of gold resources which will allow for the evaluation of various development options including expanding or extending the current operations in the district or additional mine development.

**El Dorado District**

The Company's mineral titles in the El Dorado district are comprised of Emilia, Emilia II, SREP, Ceiba, and others. This block of claims has a history of past gold production and contains the Company's Emilia mill, which is not currently operating.

An updated 43-101 compliant resource estimate for the SREP project on the San Rafael and El Placer concessions and Days Zone on the Emilia concession was completed in Q4 2008 and detailed in a technical report titled "Technical Report on the San Rafael-El 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 Au (0.64 million tonnes grading 19.4 g/t) and an additional 523,000 ounces Au in inferred resources (0.70 million tonnes grading 23.1 g/t). The updated 43-101 compliant resource estimate for the Days Vein consists of 37,000 ounces of inferred resources (209,000 tonnes at 5.5 g/t Au).

No drilling was completed during Q1 and Q2 2009. Drilling completed in Q3 2009 totaled 3,016 meters in 11 holes. The drilling 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.

The Company is in the process of constructing the Alvarez underground ramp (4.5 meters x 5.0 meters) in order to provide access to the main SREP gold mineralized zones at a vertical depth of approximately 200 meters below surface. The total ramp length is estimated at 1,800 meters of which approximately 950 meters have been completed as at September 30, 2009. The Company expects to intercept the mineralized zone and begin test sampling in the first quarter of 2010. The ramp will provide all of the necessary access to conduct further exploration with a view to upgrading the classification of the current resources at SREP. The Company has commenced a pre-feasibility study for the SREP project, which it expects to have finalized in 2010.

**Cuyuni District**

***Valle Hondo***

The 13,000 ha Valle Hondo project is located 40 km east of the Company's Emilia mill. No additional drilling was completed during Q1, Q2 or Q3 2009 and work consisted of continued compilation and interpretation of the 2008 drill results.

The current 43-101 resource estimation for the Apanao Zone is 103,000 ounces Au indicated (3.5 million tonnes grading 0.92 g/t) and 1.34 million ounces Au inferred (47.0 million tonnes grading 0.89 g/t). Technical information on Valle Hondo is detailed in a 43-101 compliant technical report titled "Technical Report on the Mineral Resource Estimate, Valle Hondo Project, Bolivar State, Venezuela", dated April 9, 2007. The overall objective continues to be the expansion and upgrading of the Apanao gold resource and the definition of additional resources (primary target at Arenales) from within the project. Additional work will be completed on the Valle Hondo Project in 2009.

**Km88 District**

***Yuruan***

The Yuruan Concession is contiguous with several other mineral titles, all 100% controlled by the Company, which total more than 11,000 ha. located between 50 and 80 kilometres south of the Emilia Mill. No additional drilling was completed during Q1, Q2 or Q3 2009. Work to date has outlined a series of gold mineralized zones contained within a large regional-scale structural trend, which cross the Yuruan concession and extends on the adjacent mineral titles controlled by the Company. All results have been received, an updated interpretation of the mineralized structures outlined to date is in progress. The objective of the drilling program in the area is to evaluate the possibility of outlining additional gold resources for the Emilia mill and/or the possibility of a "stand alone" project.

**Other Bolivar State Projects**

The Increible 14 project is located 15 km northwest of the Company's Choco Mine. No additional drilling was completed during Q3 2009. Future drilling will be evaluated in conjunction with a series of regional exploration targets within the El Callao and El Dorado districts.

**Minoro**

In Honduras, the Company holds the mineral rights to the 10,000 ha Minoro project. No fieldwork was completed in Q1, Q2 or Q3 2009 and the Company does not currently have plans to pursue exploration work on this property.

## Selected Quarterly Information

| | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 | Q4 2007 |
|---|---|---|---|---|---|---|---|---|
| **Revised Reported (*):** | | | | | | | | |
| Revenue | 26,411 | 11,185 | 30,160 | 20,730 | 14,717 | 23,152 | 11,688 | 3,495 |
| Net income (loss) | (350) | (6,393) | 543 | (14,767) | (10,114) | (30,884) | (16,482) | (12,980) |
| Basic and diluted earnings (loss) per share | 0.00 | (0.01) | 0.00 | (0.04) | (0.03) | (0.08) | (0.04) | (0.06) |
| **Previously reported (*):** | | | | | | | | |
| Revenue | N/A | N/A | N/A | N/A | 14,717 | 23,152 | 11,688 | 3,495 |
| Net loss | N/A | N/A | N/A | N/A | (12,490) | (36,818) | (17,263) | (12,980) |
| Loss per share | N/A | N/A | N/A | N/A | (0.03) | (0.10) | (0.04) | (0.06) |

**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 following discussion highlights some of the significant factors that had an impact on the results in the eight most recently completed quarters ended September 30, 2009.

During Q3 2009, revenue increased by approximately $15.2 million from Q2 2009. Approximately $13.6 million of this increase is due to an increase in ounces sold to 38,521 ounces sold in Q3 2009 from 18,484 ounces sold in Q2 2009, $0.2 million is due to the increase in average realized gold price to $686 in Q3 2009 from $681 in Q2 2009 and $1.4 million is due to the change in computation of foreign currency conversion rate in Q2 2009 described below. The increase in gold ounces sold in Q3 2009 compared to Q2 2009 resulted from selling in Q3 2009 ounces of gold produced in Q2 2009 due to uncertainty of gold sales caused in Q2 2009 by the resolutions described in the "Venezuelan Currency Exchange and Gold Sales" section.

During Q3 2009, net loss was $0.4 million compared to $6.4 in Q2 2009. Income from mining operations increased from $4.1 million in Q2 2009 to $12.0 million in Q3 2009 mainly as a result of an increase in ounces sold. Mining operating expenses and mining amortization increased from $7.1 million in Q2 2009 to $14.4 million in Q3 2009. Approximately $8.3 million of this increase is due to an increase in ounces sold in Q3 2009 from Q2 2009 and $0.6 million is due to the change in foreign currency conversion rate in Q2 2009 described below which is offset by a decrease in operating expenses and mining amortization per ounce of $1.6 million. The decrease in operating expenses and mining amortization per ounce is due to the continuing depreciation of the average BsF in Q3 compared to Q2 and the ounces sold in Q3 2009 being processed from higher grade ore in comparison with the ounces sold in Q2 2009.

Stock-based compensation decreased from $5.6 million in Q2 2009 to $0.4 million in Q3 2009 due to the issuance of stock options in April 2009. Foreign exchange gain in Q2 2009 was $0.6 million compared to a foreign exchange loss of $1.9 million in Q3 2009. The majority of this increase in foreign exchange loss in Q3 2009 is due to the appreciation of the quarter-end BsF at the end of Q3 2009 compared to Q2 2009 and the resulting impact on the future income tax liability of the Company's integrated foreign operations in Venezuela. Income tax expense increased from $0.5 million in Q2 2009 to $3.8 million in Q3 2009 due to the increased profitability of the Choco Mine and Isidora Mine.

During Q2 2009, revenue decreased by approximately $19.0 million from Q1 2009. Approximately $1.4 million of this decrease is the result of the adjustment to Q1 2009 revenue recorded in Q2 2009 as a result of changing in Q2 2009 the computation of the foreign currency conversion rate used to convert sales in BsF to US Dollars. The remaining portion of this decrease is due to the decrease in the adjusted average realized gold price to $681 in Q2 2009 (adjusted to exclude the change in foreign currency conversion rate described above) from $742 in Q1 2009 and due to the decrease in ounces sold to 18,484 ounces sold in Q2 2009 from 40,632 ounces sold in Q1 2009. The decrease in ounces sold is explained in the Results of Operations for the Three and Six Months Ended June 30, 2009 Compared to the Three and Six Months Ended June 30, 2008 section.

During Q2 2009, net loss was $6.4 million compared to net income in Q1 2009 of $0.5 million. Income from mining operations decreased from $7.4 million in Q1 2009 to $4.1 million in Q2 2009 as a result of a decrease in ounces sold which was somewhat offset by lower mining operating expenses and mining amortization per ounce sold in Q2 2009 in comparison to Q1 2009. The decrease in mining operating expenses and mining amortization from Q2 2009 to Q1 2009 was due to the change in foreign currency conversion rate described above (decrease of Q2 2009 mining operating expenses of $0.6 million as a result of adjustment to Q1 2009 mining operating expenses recorded in Q2 2009), the $2.8 million decrease from Q1 2009 to Q2 2009 as the inventory that was fair valued on the acquisition of a 50% interest in the Isidora Mine was expensed in Q1 2009, the depreciation of the BsF and greater efficiencies at the Choco Mine. Q2 2009 net loss was also significantly impacted by stock-based compensation expense increasing to $5.6 million in Q2 2009 from $0.5 million in Q1 2009 as a result of the issuance and re-pricing of stock options in April 2009.

During Q1 2009, revenue increased by approximately $9.4 million from Q4 2008. Excluding the $5.4 million increase to revenue in Q4 2008 due to the change in method of computation of the foreign currency conversion rate described below, revenue increased by approximately $14.8 million from Q4 2008 to Q1 2009. Approximately $12.0 million of this increase is due to an increase in ounces sold with $8.0 million of this increase resulting from increased ounces sold from the Choco Mine and $4.0 million resulting from increased ounces sold from the Isidora Mine. The remaining $2.8 million increase is due to an increase in the average realized gold price.

During Q1 2009, net income was $0.5 million compared to a net loss of $14.8 million in Q4 2008. As described above revenue increased by approximately $9.4 million (45%) however mining operating expenses and mining amortization increased by only $5.0 million (28%) due to the depreciation of the BsF and increased mining efficiencies. This resulted in an increase in income from mining operations of approximately $4.4 million in Q1 2009 compared to Q4 2008. In Q4 2008 the Company recorded an impairment of mineral properties of approximately $19.0 million compared to an impairment of mineral properties in Q1 2009 of $0.2 million. The Company also recorded $0.8 million in litigation and unsuccessful acquisition costs related to the Gold Reserve Bid (see the section titled "Gold Reserve Bid") in Q1 2009 compared to $3.3 million in Q4 2008. The Company recorded income tax expense of $0.8 million in Q1 2009 compared to an income tax recovery of $8.7 million in Q4 2008. The income tax expense in Q1 2009 is related to the positive mining results described above. The income tax recovery in Q4 2008 was the result of tax planning the Company implemented in Q4 2008 which enabled the Company to utilize certain loss carry-forwards, changes to the inflation adjustments in Venezuela used in the calculation of corporate taxes and the income tax recovery on the impairment of mineral properties recorded in Q4 2008 described above.

During Q4 2008, revenue increased by approximately $6.0 million from the previous quarter. Approximately $5.4 million of this increase is the result of the Company changing in Q4 2008 the method of computation of the foreign currency conversion rate by converting its revenues for 2008 at the Implicit Exchange Rate in effect on the date of each individual sale rather than at an average exchange rate for the quarter in which the sale transaction occurred as the Company has been doing previous to Q4 2008. Approximately $0.6 million of this increase is the result of an increase in gold ounces sold and an increase in the average realized gold price from Q3 to Q4.

During Q4 2008, net loss increased by approximately $4.7 million from the previous quarter. The Company had increased revenue of $6.0 million as described above and decreased mining operating expenses and mining amortization of $5.9 million. The decrease in Q4 of mining operating expenses and mining amortization of $5.9 million from Q3 was due to the depreciation of the BsF which reduces the US Dollar value of the Company's BsF denominated expenses and as a result of implemented mining and milling efficiencies at the Choco Mine. The above resulted in an income from mine operations in Q4 of $2.9 million in comparison to a loss from mine operations of $9.0 million in Q3.

During Q4 2008, the Company recorded an impairment of mineral properties of $19.0 million. Of this impairment $1.8 million related to certain properties which the Company chose to return to the Venezuelan government, $3.7 million related to certain El Callao properties under application that the Company had decided not to pursue approval of the applications and $13.5 million related to the Minoro property in Honduras as the Company does not currently have plans to pursue exploration or development work on these properties in the future.

During Q4 2008, the Company's foreign exchange gain decreased by $4.3 million from Q3 2008 to Q4 2008 due to the depreciation of the BsF and the resulting impact on the future income tax liability of the Company's integrated foreign operations in Venezuela. The Company also recorded $3.3 million in litigation and unsuccessful acquisition costs related to the Gold Reserve Bid (see the section titled "Gold Reserve Bid") in the fourth quarter with $Nil recorded in the third quarter. Income tax expense decreased by $7.6 million from the previous quarter through tax planning the Company implemented in the Q4 which enabled the Company to utilize certain loss carry-forwards and as a result of changes to the inflation adjustments in Venezuela used in the calculation of corporate taxes.

During Q3 2008, revenue decreased by $8.4 million from the second quarter. This was mainly a result of a reduction in gold ounces sold. Net loss decreased by approximately $20.8 million over the previous quarter. This was partially due to a decrease in stock-based compensation expense of $16.7 million versus the previous quarter, as Q2 was impacted by the issuance of fully vested stock options and re-pricing of certain stock options. The Company's mining operating expenses decreased by $5.4 million in Q3 compared to Q2 and mining amortization decreased by $0.9 million with a significant portion of this decrease resulting from the appreciation of the BsF. In addition, the Company had a foreign exchange gain of $6.8 million in Q3 compared to a foreign exchange loss of $3.5 million in Q2, which was mainly due to the impact of the depreciation of the BsF in Q3 2008 on the future income tax liability of the Company's integrated foreign operations in Venezuela. Interest expense on the convertible loan increased $2.5 million as the loan was outstanding for the entire Q3 as it was issued in June 2008.

During Q2 2008, revenue increased by $11.5 million over the previous quarter mainly as a result of an increase in gold ounces sold. Net loss increased by $14.4 million from the previous quarter principally due to an increase of stock-based compensation expense of $16.5 million for the issuance and re-pricing of stock options during Q2 2008, due to an increase of mining operating expenses and mining amortization of $4.1 million and due to a decrease of foreign exchange loss of $3.9 million recorded during the second quarter versus the previous quarter. The foreign exchange loss arose on the appreciation of the future income tax liability of the Company's integrated foreign operation in Venezuela as a result of the appreciation of the BsF versus the US Dollar. During Q2 2008, the appreciation of the BsF was not as strong as in Q1 2008.

During Q1 2008, revenue increased by $8.2 million over the previous quarter as in the Q4 2007 only one month of revenue was recorded from the Choco Mine since it had been recently acquired. Net loss increased by $3.5 million from the prior quarter due principally to foreign exchange losses from the Company's integrated foreign operations as a result of the appreciation of the Venezuela BsF against the US Dollar during the quarter.

During Q4 2007, revenue increased by $3.5 million over the previous quarter due to the acquisition of the Choco Mine on November 30, 2007. Before this time, the Company had no revenue as it did not have a gold producing mine. Net loss increased $1.8 million over the previous quarter.

## Results of Operations for the Three and Nine Months Ended September 30, 2009 Compared to the Three and Nine Months Ended September 30, 2008

During Q3 2009, the Company sold 38,521 ounces of gold (2008: 21,755 ounces) at an average realized price of $686 per ounce (2008: $676 per ounce). Revenue for Q3 2009 was $26.4 million (2008: $14.7 million). During the first nine months of 2009 the Company sold 97,637 ounces of gold (2008: 74,757 ounces) at an average realized price of $694 per ounce (2008: $663 per ounce). Revenue for the 9 months of 2009 was $67.8 million (2008: $49.6 million).

The substantial increase in ounces sold in Q3 2009 compared to Q3 2008 and for the first nine months of 2009 compared to the first nine months of 2008 is due to increased production of the Choco Mine in 2008 and the addition of the Isidora Mine.

During Q3 2009 the Company's mining operating expenses totalled $11.4 million (2008: $21.1 million) and mining amortization totalled $3.0 million (2008: $2.6 million) totaling 55% (2008: 161%) of revenue. During the first nine months of 2009 the Company's mining operating expenses totalled $35.3 million (2008: $52.9 million) and mining amortization totalled $8.9 million (2008: $11.4 million) totaling 65% (2008: 130%) of revenue. These decreases in the percentage of mining operating expenses and mining amortization to revenue is due to the depreciation of the BsF in comparison to the US Dollar and increased efficiencies gained at the Choco Mine in Q3 2009 compared to Q3 2008 and the first nine months of 2009 compared to the first nine months of 2008. Mining operating expenses in Q3 2008 were also impacted by an impairment of inventories of $3.3 million as compared to $Nil for Q3 2009 and an impairment of inventories of $3.6 million for the first nine months of 2008 as compared to $Nil for the first nine months of 2009.

During Q3 2009 the Company had general and administrative expense of $2.0 million (2008: $4.4 million). During the first nine months of 2009 the Company had general and administrative expense of $5.8 million (2008: $15.9 million). These decreases are due to a decrease in the average BsF in comparison to the US Dollar and an effort by the Company to significantly reduce general and administrative costs.

During Q3 2009 stock-based compensation was $0.4 million (2008: $1.7 million). During the first nine months of 2009 stock-based compensation was $6.5 million (2008: $22.0 million). The decrease between Q3 2008 and Q3 2009 was due to the vesting in Q3 2008 of options granted in prior periods having higher value in Q3 2008 in comparison to similar options in Q3 2009. The decrease between the first nine months of 2008 and the first nine months of 2009 is mainly the result of options issued in June 2008 having significantly higher values than options issued in April 2009.

During Q3 2009 interest on convertible loan was $3.4 million (2008: $3.2 million). During the first nine months of 2009 interest on convertible loan was $10.0 million (2008: $3.9 million). The increase for the nine months ended September 30, 2009 is the result of the convertible loan being issued in June of 2008 and therefore interest was only recorded in 2008 for a portion of 2008 whereas in 2009 interest was recorded for the entire nine months.

Foreign exchange loss (gain) was $1.9 million in Q3 2009 (2008: ($6.8) million). During the first nine months of 2009 foreign exchange (gain) loss was ($0.3) million (2008: $4.1 million). The foreign exchange loss for Q3 2009 resulted from the appreciation of the quarter-end BsF at the end of Q3 2009 compared to Q2 2009 which increased the BsF denominated future income tax liability of the Company's integrated foreign operations in Venezuela whereas the Q3 2008 foreign exchange gain is due to the depreciation of the quarter-end BsF at the end of Q3 2008 compared to Q2 2008 which decreased the BsF denominated future income tax liability of the Company's integrated foreign operations in Venezuela. The foreign exchange gain recognized for the first nine months of 2009 is due to the impact of the appreciation of the quarter-end BsF at the end of Q3 2009 compared to December 31, 2008 and resulting increase in the BsF denominated further income tax liability being offset by the foreign exchange gains resulting from the appreciation of the C$ on the Company's C$ cash and cash equivalents and short-term investments. The foreign exchange loss for the first nine months of 2008 is due to the impact of the appreciation of the quarter-end BsF at the end of Q3 2008 compared to December 31, 2007 which increased the BsF denominated future income tax liability of the Company's integrated foreign operations in Venezuela.

Current income tax (recovery) expense was ($0.7) million in Q3 2009 (2008: $3.1 million) as all gold sold in Q3 2009 was considered taxable in Venezuela in Q2 2009 and therefore the current income taxes on these sales were recorded in Q2 2009. During the first nine months of 2009 current income taxes were $9.9 million (2008: $6.2 million). The increase in the first nine months of 2009 is mainly the result of the increased profitability at the Choco Mine and the inclusion of current income taxes related to the Isidora Mine. The provision for (recovery of) future income taxes was $4.5 million in Q3 2009 (2008: ($4.2) million). The increase in future income taxes in Q3 2009 is due to gold sold in Q3 2009 which was included in current income taxes in Q2 2009 as described above and due to the timing of certain tax deductions. During the first nine months of 2009 the (recovery of) provision for future income taxes were ($4.8) million (2008: $9.1 million). This decrease in the first nine months of 2009 is due to the timing of certain tax deductions.

## Financial Position

The Company's assets totaled $1,134 million as at September 30, 2009 (December 31, 2008: $1,044 million). Total assets primarily consisted of $36 million in cash and cash equivalents (December 31, 2008: $2 million), $22 million in short-term investments (December 31, 2008: $Nil), $33 million in inventories (December 31, 2008: $17 million), $732 million in property, plant and equipment (December 31, 2008: $722 million) and $287 million in mineral properties (December 31, 2008: $276 million). A large majority of the assets are denominated in BsF from the Company's self-sustaining foreign operations, Choco Mine and Isidora Mine, which according to the Company's accounting policy have been translated from BsF to US Dollars at the prevailing Implicit Exchange Rate at the balance sheet date. Similarly, a significant amount of the Company's liabilities, including accounts payable and accrued liabilities of $27 million as at September 30, 2009 (December 31, 2008: $34 million) and future income tax liability of $283 million (December 31, 2008: $281 million) have been translated from BsF to US Dollars at the Implicit Rate at the balance sheet date. As the BsF appreciated against the US Dollar from December 31, 2008 to September 30, 2009 this contributed to the increase in property, plant and equipment, mineral properties and future income tax liability.

Convertible loan of $76 million (December 31, 2008: $72 million) represents the balance of the convertible loan which has been discounted, and accreted at an effective interest rate of 18.5% and the segregation of the $6 million equity component (December 31, 2008: $6 million) attributable to the convertible option of the lenders which is disclosed in shareholders' equity. The loan is held in US Dollars and repayable as indicated under the "Liquidity and Capital Resources" section of this MD&A.

## Liquidity and Capital Resources

The Company's cash and cash equivalents position increased $33.3 million and the Company's short-term investments increased $21.6 million from December 31, 2008 to September 30, 2009. The majority of the increase in cash and cash equivalents was the positive cash flow from financing activities of $59.8 million and operating activities of $8.7 million which was partially reduced by negative cash flow from investing activities of $35.6 million for the period from Jan 1, 2009 to September 30, 2009 (which includes $21.6 million of short-term investments).

Cash inflows from operations during Q3 2009 of $4.2 million compared to cash outflows from operations of $2.3 million in Q2 2009 were significantly impacted by an increase in ounces sold to 38,521 ounces in Q3 2009 from 18,484 ounces in Q2 2009. Cash inflows from operations excluding changes in non-cash working capital items, receivables non-current and accrual for termination benefits non-current were $12.4 million during Q3 2009 compared to outflows of $4.1 million during Q2 2009.

Cash flows from financing activities were $Nil in Q3 2009 compared to cash outflows of $0.5 million in Q2 2009.

Cash used in investing activities was $20.7 million in Q3 2009 compared to $7.5 million in Q2 2009. Investment activities in Q3 2009 included $3.5 million on mineral properties compared to $2.1 million in Q2 2009, $3.1 million on property, plant and equipment compared to $1.9 million in Q2 2009 and short-term investments of $14.2 million in Q3 2009 compared to $3.4 million in Q2 2009.

The strategic plan for the Company includes as the main objective to preserve or enhance its existing post-financing cash and cash equivalents and short-term investments position until June 2010 when the $60 million principal of the convertible loan becomes due(on November 17, 2009 the Company purchased $20 million of the principal of the convertible loan which has a principal amount of $80 million at September 30, 2009). The Company's plan to achieve this target is based on the assumptions of continuing gold prices above $800, the BsF Implicit Rate remaining close to BsF 6 per US Dollar, the ability to raise capital, the generation of positive cash flows from the Choco Mine and Isidora Mine, and the ability of management to positively resolve the CBV Resolution discussed in the "Venezuelan Currency Exchange and Gold Sales" section. There is no positive assurance that management will be able to positively resolve the foregoing CBV Resolution and/or successfully raise capital and/or preserve or enhance the Company's existing cash and cash equivalents and short-term investments. As such, there is significant doubt regarding the going concern assumption. The September 30, 2009 financial statements do not reflect any adjustment that would be required in the case of a going concern issue; such adjustments could be material.

Combined production guidance for the Company including 100% of the Choco Mine and 50% of the Isidora Mine is projected at 170,000 ounces in 2009 and 200,000 ounces or greater in 2010. The Company plans to fund sustaining and initial expansion capital expenditures, and exploration and development expenditures necessary to achieve the above production guidance and complete feasibility studies as indicated in the Outlook section of this MD&A.

Notwithstanding the strategic plan above, the Company anticipates the need to potentially raise additional equity or debt financing to help repay the convertible loan and to continue with its mine development and exploration plans in the future.

The Company maintains the majority of its post-financing cash and cash equivalents and short-term investments in US Dollars. The Company's significant commitments and a large portion of its operating costs are in US Dollars. The Company also maintains necessary cash and cash equivalents in BsF and C$, sufficient to fund short-term operating commitments in those currencies. As of the day of this MD&A, the Company settles its gold sales in BsF.

Practical restrictions currently exist on the ability of the Company to transfer funds from its 50% joint venture to the Company's other subsidiaries. These restrictions arise from the fact that financial decisions impacting the joint venture are made in collaboration with the Company' joint venture partner, the Venezuelan government. These restrictions may affect the Company's ability to use cash and cash equivalent resources from Venrus C.A. to fund the Company's operations or to contribute to repayment of the convertible loan. Cash and cash equivalents of $35.5 million as at September 30, 2009 included cash and cash equivalents of $0.5 million held by Venrus C.A.

As at November 25, 2009, the Company has $16.4 million in cash and cash equivalents, $8.4 million in short-term investments and the outstanding $60 million principal portion of the convertible loan is due on June 10, 2010.

## 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

The Company has grown significantly during the last 2 years, becoming a junior producer with 2 operating mines and various development and exploration projects in Venezuela.

During 2009, the Company expects to increase its gold production profile to 170,000 ounces of gold produced during 2009 from the Choco Mine and its 50% interest in the Isidora Mine. Total cash costs per ounce for 2009 are expected to be approximately $370 per ounce.

For the cost per ounce estimate, the Company assumes a BsF/US Dollar Implicit Exchange Rate of BsF 6/$1.00 during the year. Any significant change in the rate will generate a material increase or decrease in our costs.

**Choco Mine**

The projected gold production guidance for 2009 for the Choco Mine is 135,000 ounces of gold at a cash cost per ounce of approximately $375 per ounce.

Revised capital expenditures expected for the full year 2009 at the Choco Mine include:

Feasibility study: $1.5 million ($3.0 million previously reported)
Resource to reserve conversion drilling: $1.5 million ($3.0 million previously reported)
Processing plant improvements: $Nil ($3.0 million previously reported)
Other expansion capital expenditure: $Nil ($2.5 million previously reported)
Tailings dam upgrades: $1.0 million ($3.0 million previously reported)
Other sustaining capital expenditure: $1.0 million ($8.5 million previously reported)

The decrease in the expected capital expenditures at the Choco Mine is due to the uncertainty as a result of the CBV resolution described in the section "Venezuelan Currency Exchange and Gold Sales".

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 and Pisolita 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 Capia and Cerro Azul deposits. The feasibility study initiated in Q3 2009 is expected to be completed during 2010.

The revised $1.5 million exploration program ($3.0 million previously reported) of 20,000 meters (resource to reserve conversion drilling) planned for the Choco Mine during 2009 is to update reserves and resources to support the economic model of the feasibility study. The Company expects to provide a resource update of the Choco Mine in 2010.

**Isidora Mine**

Ore from the Company's 50% interest in the Isidora Mine is expected to be processed during 2009 at the mill located at the Choco Mine which is approximately 10 kilometres from the Isidora Mine and the La Camorra mill which is located 120 kilometers from the Isidora Mine.

The gold production guidance for 2009 for the Isidora Mine remains at 70,000 ounces of gold (35,000 ounces net to the Company) at a cash cost per ounce of approximately $350 per ounce.

Forecasted capital expenditures at the Isidora Mine for 2009 included sustaining capital expenditure (mainly renewal of mining equipment and fleet) of $3.4 million ($1.7 million net to the Company). A $6 million exploration program ($3 million net to the Company) of 35,000 meters (approximately 25,000 meters to be completed in 2009) is underway at the Isidora Mine during 2009 designed to expand reserves and resources to support future gold production. The Company is expecting to provide a resource update for the Isidora Mine in 2010 once results for the current drilling program are compiled and interpreted.

### Other Advanced Properties

The Company is in the process of constructing the Alvarez underground ramp (4.5 meters x 5.0 meters) in order to provide access to main mineralized areas at a vertical depth of approximately 200 meters below surface. As at September 30, 2009, the total ramp length is approximately 950 metres and the Company expects to intercept the mineralized zone and begin test sampling in the first quarter of 2010. The ramp will provide all of the necessary access to conduct further exploration with a view to upgrading the classification of the current resources at SREP. The Company commenced a pre-feasibility study for the SREP project which it expects to have completed by 2010.

Capital expenditure expected for SREP during 2009 includes mining equipment to accelerate the pace of the construction of the underground ramp for $2 million plus other development costs for another $7 million ($4 million previously reported) which includes $0.7 million for a pre-feasibility study. The increase in expected other development costs is due to higher than expected costs including labour.

The capital expenditures described above may be reduced based on the Company's ability to resolve the uncertainty regarding gold sales described in the "Venezuelan Currency Exchange and Gold Sales" section.

## Commitments

As at September 30, 2009, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for community relations, feasibility study, security, computer maintenance, consulting and other services as follows:

| | Related Party $(000) | Non-Related Party $(000) | Total $(000) |
|---|---|---|---|
| 2009 | 89 | 1,318 | 1,407 |
| 2010 | 355 | 448 | 803 |
| 2011 | 89 | 73 | 162 |
| 2012 | - | 73 | 73 |
| 2013 | - | 73 | 73 |
| 2014 and Thereafter | - | 79 | 79 |
| | 533 | 2,064 | 2,597 |

As part of the Mixed Enterprise Agreement the Company has committed to incurring various social costs during a period of 18 months from entering into the agreement. These social costs will be expensed as incurred. The total cost to be incurred has been estimated by the Company at $0.4 million.

## Contingencies

### Central Bank of Venezuela Resolution

See the "Venezuelan Currency Exchange and Gold Sales" section for the description of Resolution No. 09-06-03 and the potential impact on the Company.

### Gold Reserve Lawsuit

Gold Reserve has claimed $550 million damages and punitive damages related to an alleged breach of confidence and trespass related to Gold Reserve's property in Venezuela. On February 10, 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. The outcome of this matter is not determinable at this time and no amount has been accrued in the financial statements for this claim.

**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 for $415 (December 31, 2008: $51) from companies which Vladimir Agapov a director of the Company, and Andre Agapov a director/officer of the Company, have significant influence. Of these amounts $236 (December 31, 2008: $Nil) is unsecured, non-interest bearing and repayable in equal monthly instalments over the period ending March 1, 2011 and $179 (December 31, 2008: $51) is unsecured, non-interest bearing with no set terms of repayment.
- Included in prepaid expenses and deposits is $41 (December 31, 2008: $41) related to a security deposit for an office lease entered into with a company which Vladimir Agapov a director of the Company, and Andre Agapov a director/officer of the Company, have significant influence.
- Included in amounts capitalized as property, plant and equipment during the year is $655 (December 31, 2008: $Nil) and included in amounts capitalized in mineral properties during the year is $755 (December 31, 2008: $1,764) related to the provision of technical and geological services and machinery rental from companies of which Vladimir Agapov a director of the Company, and Andre Agapov a director/officer of the Company, have significant influence.
- Included in the consideration of the Hecla-Venezuela Acquisition is $Nil (December 31, 2008: $2,000) for the purchase of a plant for the treatment of diamonds which is owned by a company controlled by Andre Agapov a director/officer of the Company. On February 20, 2009, the Company issued a promissory note to Andre Agapov 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 Andre Agapov. On May 19, 2009, the Company repaid the promissory note.
- Included in accounts payable and accrued liabilities are amounts of $264 (December 31, 2008: $526) due to companies which Vladimir Agapov a director of the Company, and Andre Agapov a director/officer of the Company, have significant influence (for technical and geological services and machinery rental), $9 (December 31, 2008: $372)to a law firm which Jay Kaplowitz, a director of the Company, is a partner (for legal services) and $Nil (December 31, 2008: $500) to Andre Agapov a director/officer of the Company for the purchase of a plant for the treatment of diamonds. These amounts are unsecured, due on demand and non-interest bearing.
- Included in general and administrative expenses is $132 (2008: $441) for the three-month period and $362 (2008: $857) for the nine-month period ended September 30, 2009 related to the cost of running the Company's office of representation in Moscow, $27 (2008: $Nil) for the three-month period and $74 (2008: $Nil) for the nine-month period ended September 30, 2009 related to the rental of the Caracas office, $(6) (2008: $170) for the three-month period and $51 (2008: $364) for the nine-month period ended September 30, 2009 related to consulting fees from companies that Vladimir Agapov a director of the Company, and Andre Agapov a director/officer of the Company, have significant influence. Included in general and administrative expenses is $Nil (2008: $Nil) for the three-month period and $Nil (2008: $365) for the nine-month period ended September 30, 2009 related to the provision of travel services from a company which Vladimir Agapov a director of the Company has significant influence.

- Included in convertible loan is financing costs of $Nil (December 31, 2008: $97), included in acquisition costs of the Hecla-Venezuela acquisition is $Nil (December 31, 2008: $143), included in share capital is share issuance costs of $23 (December 31, 2008: $Nil), included in general and administrative expenses is $40 (2008: $43) for the three-month period ended September 30, 2009 and $106 (2008: $267) for the nine-month period ended September 30, 2009, and included in litigation costs and unsuccessful acquisition is $Nil (2008: $Nil) for the three-month period ended September 30, 2009 and $190 (2008: $Nil) for the nine-month period ended September 30, 2009 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.

## Trust and Contribution Agreements

The Company is a party to a trust agreement and a contribution agreement whereby it has agreed to pay to a trust established for members of management and the executive committee of the board of directors, a success fee upon the completion of a transaction or series of transactions. For the purposes of the contribution agreement, a "Transaction" is defined as: (a) any merger, consolidation, reorganization, recapitalization, restructuring, leveraged buyout, business combination, or any transaction pursuant to which the Company is acquired by or combined with a third party; or (b) the acquisition by a third party of any assets or operations of the Company, or any outstanding shares of the Company; or (c) a sale or spin-off of any material assets, of 5% or more of the capital stock of any subsidiary of the Company, or any transaction which has the effect of altering the capitalization of the Company. Where a change in control accompanies the Transaction, the success fee will be equal to 1% of the aggregate transaction value as defined in the contribution agreement. If the Transaction involves the acquisition of less than 50% of the voting power of the then outstanding Company's shares, then the success fee will be equal to 0.5% of the aggregate transaction value. The trustees (the "Trustees") for the trust are Abraham Stein and Peter Hediger, both of whom are independent directors and members of the compensation committee of the board of directors. The Trustees are empowered to allocate the success fee amongst the members of the management of the Company and the executive committee as they deem appropriate.

## Disclosure of Outstanding Share Data

**Authorized**

- As at November 24, 2009, September 30, 2009 and December 31, 2008, there were an unlimited number of common shares authorized without par value.

**Issued and Fully Paid Common Shares**

- As at November 24, 2009, 529,845,623 common shares were issued and outstanding, (September 30, 2009: 529,845,623 and December 31, 2008: 390,777,946). The Company does not have shares subject to escrow restrictions. There are 12,975,584 common shares of the Company which are subject to contractual restrictions on transfer and which may be sold on December 1, 2009.

**Stock Options and Warrants**

- As at November 24, 2009, 108,800,129 warrants to acquire an equal number of common shares were outstanding and exercisable (September 30, 2009: 108,800,129 and December 31, 2008: 108,800,129) and 51,567,942 stock options to acquire an equal number of common shares were outstanding (September 30, 2009: 51,567,942 and December 31, 2008: 35,337,942) of which 49,663,776 were exercisable (September 30, 2009: 49,043,776 and December 31, 2008: 31,925,442).

**Common Share Conversion Feature of Convertible Loan**

- As at November 24, 2009, the $60 million principal of the convertible loan is convertible into 55,860,518 common shares (September 30, 2009: $80 million in principal convertible into 74,480,691 and December 31, 2008: $80 million in principal convertible into 64,000,000 common shares).

## Change in Accounting Policies

**Accounting Policies Implemented Effective January 1, 2009**

***Goodwill and Intangible Assets***

Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. Section 1000, *Financial Statement Concepts* was also amended to provide consistency with this new standard. The adoption of Section 3064 did not result in a material impact on the Company's consolidated financial statements.

**Accounting Policies to be Implemented Effective January 1, 2011**

***Business Combinations, Consolidations, Non-Controlling Interests***

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued the following new sections: Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-Controlling Interests*. These standards are effective January 1, 2011, with early adoption permitted. The Company has not yet determined the impact of the adoption of these standards on its consolidated financial statements.

***International Financial Reporting Standards***

The Accounting Standards Board of the CICA announced that Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Early conversion to IFRS for fiscal years beginning on or after January 1, 2009, may also be permitted.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly, as the Company develops its IFRS implementation plan, it will have to include measures to provide extensive training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

The Company is currently in the initial stages of evaluating the impact of IFRS on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, training requirements and business activities including those that may be influenced by GAAP measures. The Company plans to engage external consultants to provide support for the timely conversion to IFRS. The financial impact of the transition to IFRS cannot be reasonably estimated at this time.

## Risks and Uncertainties

### Financial Instruments

Cash and cash equivalents are classified as held-for-trading and measured at fair value. Short-term investments are classified as available-for-sale and measured at fair value. Receivables (excluding VAT receivable) are classified as loans and receivables and measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities (excluding current portion of asset retirement obligation), convertible loan and accrual for termination benefits non-current are classified as other financial liabilities and measured at amortized cost using the effective interest rate method.

Management reviewed all significant financial instruments held by the Company and determined that no material differences between fair value and carrying value existed as at September 30, 2009 except for the liability component of the convertible loan which has a fair value of $76.2 million. 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 risk exposure and the way in which such exposure are managed is provided as follows:

### Credit Risk

Management does not believe the Company is exposed to any significant concentration of credit risk. Management determines concentration by the percentage of cash and cash equivalents, short-term investments and receivables (excluding VAT receivable) owed by a single party.

The Company's exposure to credit risk on its C$ and US Dollar cash and cash equivalents 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 cash balances to fund only the short-term needs of its Venezuelan subsidiaries. The Company minimizes the credit risk on trade receivables by selling to customers with strong credit histories.

### Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations associate with financial liabilities. The Company manages liquidity risk by ensuring that it has sufficient cash and cash equivalents, short-term investments, credit facilities 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 September 30, 2009. The amounts disclosed are the contractual undiscounted cash flows.

| | 2009 $(000) | 2010-2011 $(000) | Total $(000) |
|---|---|---|---|
| Accounts payable and accrued liabilities | 17,921 | 6,243 | 24,164 |
| Accrual for termination benefits non-current | - | 1,295 | 1,295 |
| Interest on convertible loan (*) | 4,000 | 4,000 | 8,000 |
| Convertible loan (*) | - | 80,000 | 80,000 |
| | 21,921 | 91,538 | 113,459 |

(*) On November 17, 2009, the Company purchased $20,000 of the principle amount of the Loan and accrued interest

## 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 will fluctuate because of changes in market interest rates. The Company is not exposed to changes in cash flows due to changes in market interest rates as the interest on the Company's convertible loan is at a fixed rate. 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, 2009, a 1% increase in interest rates would decrease the fair value of the convertible loan by $0.5 million and a 1% decrease in interest rates would increase the fair value of the convertible loan by $0.5 million.

### Currency Risk

The Company is exposed to currency risk as a majority of its assets and liabilities are denominated in foreign currencies. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company follows the current rate method for accounting for its self-sustaining operations. Under this approach, the assets and liabilities of these subsidiaries are translated according to the prevailing market exchange rate at the balance sheet date with all foreign exchange translation adjustments being recorded as a component in accumulated other comprehensive income in the consolidated balance sheets. The translation adjustments are realized in the consolidated statements of operations when there is a reduction in the Company's net investment in the respective foreign operations.

Substantially all of the change in the unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations is related to the revaluation of the property, plant and equipment, mineral properties and future income tax liability in the Company's self-sustaining Venezuelan subsidiaries and joint venture.

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.

As at September 30, 2009, the Company holds cash and cash equivalents of $5.6 million (December 31, 2008: $1.7 million) in BsF.

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: BsF and C$ denominated cash and cash equivalents, short-term investments, receivables (excluding VAT receivable), accounts payable and accrued liabilities (excluding current portion of asset retirement obligation) and accrual for termination benefits non-current. The sensitivity of the Company's net earnings and other comprehensive income from these financial instruments due to changes in the exchange rate between the BsF, C$ and the US Dollar are summarized below:

| | As at September 30, 2009 | |
|---|---|---|
| | 25% Increase in the BsF | 25% Decrease in the BsF |
| | $(000) | $(000) |
| Net earnings | 261 | (209) |
| Other comprehensive income | (2,759) | 2,207 |

| | As at September 30, 2009 | |
|---|---|---|
| | 10% Increase in the Canadian Dollar | 10% Decrease in the Canadian Dollar |
| | $(000) | $(000) |
| Net earnings | 413 | (376) |
| Other comprehensive income | - | - |

## Other Risks

### Commodity Price Risk

The value of the Company's mineral properties and property, plant and equipment is related to the current price, and outlook for the price, of gold. Refer to "Gold Price Volatility" section of this MD&A

### Title Risk

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

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

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

## Country Risk

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

## Environmental Regulation and Liability

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

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

## Reserve and Resource Estimates

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

## Mineral Exploration and Exploitation

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

## Uninsurable Risks

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

## Production Risks

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

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

## Regulations and Permits

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

## Gold Price Volatility

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

**Dependence on Key Management Personnel**

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

**Common Share Price Volatility**

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

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

**Current Global Financial Conditions**

Current global financial conditions have been subject to increased volatility, with numerous financial institutions having either gone into bankruptcy or having being rescued by government authorities. Access to financing has been negatively impacted by both sub-prime mortgages in the United States and elsewhere and the liquidity crisis affecting the asset-backed commercial paper market. As such, the Company is subject to counterparty risk and liquidity risk. The Company is exposed to various counterparty risks including, but not limited to: (i) through financial institutions that hold the Company's cash and cash equivalents and short-term investments; (ii) through companies that have payables to the Company; (iii) through the Company's insurance providers; and (iv) through the Company's lenders. The Company is also exposed to liquidity risks in meeting its operating expenditure requirements in instances where cash and cash equivalents or short-term investments positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the common shares could be adversely affected.

## 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 Management Discussion and Analysis 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 it 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; risks arising from holding derivative instruments (such as credit risk, market liquidity risk and mark-to market risk); 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, of a resolution by the CBV as discussed under section Venezuela Currency Exchange and Gold Sales in this MD&A; 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 $550 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 "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.