This Management's Discussion and Analysis ("MD&A") for Rusoro Mining Ltd. ("the Company") should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010, and supporting notes.

The financial information presented in this MD&A is reported in US dollars, unless otherwise indicated, and is partly derived from the Company's consolidated financial statements prepared consistent with International Financial Reporting Standards ("IFRS"). A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") to IFRS is set out in Note 25 of the 2011 audited consolidated financial statements. The effective date of this MD&A is April 27, 2012. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein.

Contents of the MD&A

1. OVERVIEW OF THE COMPANY

The principal business activities of the Company are the acquisition, exploration, development and operation of gold mineral properties in Venezuela.

Until March 14, 2012, the Company held a 95% controlling interest in the Choco 10 mine ("the Choco Mine") and a 50% interest in the Isidora mine ("the Isidora Mine"), which the Company operated as part of a joint venture ("the Joint Venture") with the Venezuelan government. The Company also held interests in various exploration and development projects in Venezuela.

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

Subsequent to year end, the Company was unable to reach an agreement with the Venezuelan government upon the terms and conditions of the migration of its mining assets to the Mixed Enterprise within the designated time periods. Therefore, effective beginning March 15, 2012 in accordance with the procedures outlined in the Decree, all of the Company's mining concessions expired by force of the Decree and all related assets and operations reverted to the Venezuelan government who took possession and control in accordance with Venezuelan law becoming the new operator and employer.

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

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

As of the date of this MD&A, the Company's sole recourse is to file a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") against the government of Venezuela alleging violations of the provisions of the Bilateral Treaty for the Protection of Investments entered between the governments of Canada and Venezuela (the "BIT"). The Request for Arbitration cannot be filed by the Company earlier than June 15, 2012 as the BIT requires the parties to resolve the dispute through amicable negotiations within six months from the date on which one party notifies the other of the dispute under the BIT and requests the other to commence such amicable negotiations, which occurred on December 15, 2011 when the Company delivered its notification to the Venezuelan government. Among other things, the treaty provides that the Venezuelan government must pay a fair, prompt, and timely compensation to the Company as a result of the Nationalization. In parallel, the Company continues to seek an amicable resolution with the Venezuelan government.

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

2. CONSOLIDATED RESULTS OF OPERATIONS

Effective September 16, 2011, the Decree mandated that 100% of the gold produced in Venezuela be sold to the Central Bank of Venezuela ("CBV"), effectively terminating the Company's ability to export.

Effective May 17, 2010, the Venezuelan government enacted a law that effectively closed the swap market, eliminating the implicit exchange rate previously used to translate transactions and balances into US dollars. As a result of this change, translation of transactions and balances into US dollars were done after this date using the Venezuelan Bolivar Fuerte ("BsF") official rate of BsF 4.30/$1.00 which significantly increased the US dollar revenues, costs, expenses, consolidated statement of cash flows, and consolidated statement of financial position amounts ("the Change in Translation Rate") (see "Venezuela Currency Exchange and Gold Sales" section).

Results for the three-month period ended December 31, 2011 ("Q4 2011'):

- Revenue decreased to $22.2 million (13,670 ounces sold) in Q4 2011 from $33.5 million (24,991 ounces sold) in Q4 2010 due to lower gold production which more than offset the increase in the realized price of gold to $1,627 in Q4 2011 from $1,340 in Q4 2010.

- Mining operating expenses and depreciation and depletion increased to $60.9 million and $3.8 million, respectively, in Q4 2011 from $20.6 million and $3.4 million in Q4 2010. Mining operating expenses increased due to various factors. The double-digit Venezuelan inflation rate impacted mining operating expenses as well as an $18.0 million non-cash impairment adjustment to inventories on December 31, 2011 mainly due to their expropriation by the Venezuelan government subsequent to year end on March 14, 2012 and a $10.7 million increase in the allowance for doubtful collection of Value Added Tax (VAT) receivable as a result of the Nationalization. The decrease in tonnes mined and milled, which affected gold production, is the result of cash constraints originated by a depressed gold production due to the inability to access USD to pay for imported parts and consumables essential to sustain the Company's mining operations. Additionally, as a result of the Company's inability to export gold under the Decree, the Company had to sell gold to the CBV in BsF reducing the Company's purchasing power as there is no available means for the Company to exchange BsF to USD at the official exchange rate. The uncertainty created by the Decree about the Company's future operations created a negative impact on the operations as well, as it affected suppliers, on-site contractors and employees.

- General and administrative expenses were $1.3 million in Q4 2011 compared to $1.3 million in Q4 2010.

- Foreign exchange gain was $1.5 million in Q4 2011 compared to a foreign exchange gain of $3.0 million in Q4 2010, due to the elimination of the implicit exchange rate for translation of transactions and balances and the current use of a single official fixed rate.

- Interest expense on the Company's convertible loan decreased to $1.0 million in Q4 2011 from $1.5 million in Q4 2010 due to the partial retirement of the convertible loan during 2010.

- Gain on revaluation of derivative financial liabilities increased to $nil in Q4 2011 from a loss of $3.1 million in Q4 2010 due to the issuance and subsequent revaluation of Canadian dollar (C$) warrants at lower current market prices. The warrants were issued in June 2010 as part of the convertible loan refinancing transaction.

- Impairment loss on write-down of property, plant and equipment and mineral properties increased to $922 million in Q4 2011 from $0.4 million in Q4 2010 as a result of a non-cash write-down adjustment recorded on these assets on December 31, 2011 due to their Nationalization by the Venezuelan government on March 14, 2012.

— Deferred tax recovery increased to $194.9 million in Q4 2011 from a recovery of $2.3 million in Q4 2010. The increase was the net effect produced by the reversal of the deferred tax liabilities and assets in the balance sheet as at December 31, 2011 as a result of the impairment adjustment mentioned in the paragraph above which eliminated the temporary difference between the tax and accounting values of those assets.

— The revaluation of the gold sale contract created a gain of $0.6 million in Q4 2011 from $nil in Q4 2010, due to the reclassification of a gold delivery contract from deferred revenue to a derivative financial liability, and its subsequent revaluation to its fair value using the current international spot price of gold.

— Net loss amounted to $767.2 million during Q4 2011 compared to net profit of $9.9 million during Q4 2010.

Results for 2011:

— Revenue decreased to $107.3 million (71,702 ounces sold) in the 2011 from $143.7 million (148,928 ounces sold) in 2010 due to lower gold production which more than offset the increase in the average realized price of gold to $1,497 in 2011 from $965 in 2010 and the effect of the Change in Translation Rate. The reduction in gold sales is substantially due to the sale of a significant amount of finished gold inventory during 2010, which had been stored from the latter portion of 2009. There was no similar buildup of finished gold inventory from the prior year for sale in 2011. The reduction in gold sales is also attributable to lower production as a result of lower average ore grade at the Choco Mine and Isidora Mine and for the reasons explained in the paragraph below affecting gold production.

— Mining operating expenses increased and depreciation and depletion decreased to $147.9 million and $13.4 million, respectively, in 2011 from $111.7 million and $19.1 million in 2010. The increase in mining operating expenses is due to a $21.4 million non-cash impairment adjustment to inventories on December 31, 2011 mainly due to their expropriation by the Venezuelan government subsequent to year end on March 14, 2012 and a $10.7 million increase in the allowance for doubtful collection of Value Added Tax (VAT) receivable as a result of the Nationalization. Other reason for the increase in mining operating expenses is the increase in the cash cost per ounce sold during 2011 compared to 2010 as a result of the change in the Translation Rate, the impact of the Venezuelan inflation rate, and the lower gold production realized at the Choco Mine and Isidora Mine. The decrease in tonnes mined and milled, which affected gold production, is the result of cash constraints originated by a depressed gold production due to the inability to access USD to pay for imported parts and consumables essential to sustain the Company’s mining operations. Also as a result of the Company’s inability to export gold as prohibited by the Decree, the Company had to sell gold to the CBV in BsF reducing the Company’s purchasing power as there is no available means for the Company to exchange BsF to USD at the official exchange rate. The uncertainty created by the Decree about the Company’s future operations created a negative impact on the operations as well, as it affected suppliers, on-site contractors and employees.

— General and administrative expenses decreased to $6.6 million in 2011 from $9.2 million in 2010 significantly due to cost reductions to preserve cash and termination benefits paid to two senior officers of the Company during 2010.

— Interest on the Company’s convertible loan decreased to $4.6 million in 2011 from $8.0 million in 2010 due to the partial retirement of the convertible loan during 2010.

— Gain on revaluation of derivative financial liabilities increased to $4.1 million in 2011 from a loss of $2.4 million in 2010 due to the issuance and subsequent revaluation of Canadian dollar (C$) warrants at lower current market prices. The warrants were issued in June 2010 as part of the convertible loan refinancing transaction.

- Loss on revaluation of the gold sale contract increased to $4.2 million in 2011 from a loss of $nil in 2010, due to the reclassification of a gold delivery contract from deferred revenue to a derivative financial liability, and its subsequent revaluation to its fair value using the current international spot price of gold.

- Impairment loss on write-down of property, plant and equipment and mineral properties increased to $924.3 million in 2011 from $1.5 million in 2010 as a result of a non-cash write-down adjustment done to these assets on December 31, 2011 due to their expropriation by the Venezuelan government on March 14, 2012.

- Deferred tax recovery increased to $206.0 million in 2011 from $26.6 million in 2010. The increase was the net effect produced by the reversal of the deferred tax liability and asset in the balance sheet as at December 31, 2011 as a result of the impairment adjustment mentioned above which eliminated the temporary difference between the tax and accounting value of those assets.

- Foreign exchange gain was $0.4 million in 2011 compared to a foreign exchange gain of $5.3 million in 2010, primarily due to the fixing of the exchange rate in Venezuela to the official rate.

- Net loss amounted to $780.1 million during 2011 compared to net profit of $20.8 million during 2010.

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

	3 Months Ended December 31, 2011			3 Months Ended December 31, 2010		
	Choco	Isidora	Total	Choco	Isidora	Total
Ore tonnes mined ('000 t)	224	3	227	565	10	575
Ore tonnes milled ('000 t)	241	5	246	411	5	416
Average grade (g/t)	1.29	10.24	1.45	1.71	18.58	1.91
Average recovery rate (%)	85	96	86	91	90	91
Gold produced (ounces)	6,713	1,734	8,447	22,501	1,661	24,162
Gold sold (ounces)	11,853	1,817	13,670	23,358	1,633	24,991
Total mining operating expenses $(000)	49,717	11,184	60,901	18,041	2,573	20,614
- decommissioning and restoration provision accretion $(000)	(304)	(230)	(534)	(192)	(146)	(338)
- allowance for doubtful collection of VAT receivable	(8,981)	(1,730)	(10,711)	-	-	-
- impairment of inventories $(000)	(13,626)	(4,351)	(17,977)	-	(605)	(605)
Total cash costs $(000)(1)	26,806	4,873	31,679	17,849	1,822	19,671
Total cash costs per ounce sold $(2)	2,262	2,682	2,317	764	1,116	787
Average spot gold price per ounce $	n/a	n/a	1,685	n/a	n/a	1,367
Average realized gold price per ounce sold $	1,625	1,638	1,627	1,338	1,373	1,340

	12 Months Ended December 31, 2011			12 Months Ended December 31, 2010		
	Choco	Isidora	Total	Choco	Isidora	Total
Ore tonnes mined ('000 t)	901	25	926	1,790	27	1,817
Ore tonnes milled ('000 t)	1,274	28	1,302	1,833	25	1,858
Average grade (g/t)	1.37	11.36	1.58	1.62	16.71	1.82
Average recovery rate (%)	92	92	92	92	90	92
Gold produced (ounces)	53,194	11,245	64,439	90,087	11,096	101,183
Gold sold (ounces)	59,698	12,004	71,702	130,890	18,038	148,928
Total mining operating expenses $(000)	117,286	30,649	147,935	92,269	19,407	111,676
- decommissioning and restoration provision accretion $(000)	(1,059)	(810)	(1,869)	(532)	(435)	(967)
- allowance for doubtful collection of VAT receivable	(8,981)	(1,730)	(10,711)	-	-	-
- impairment of inventories $(000)	(13,626)	(7,747)	(21,373)	-	(605)	(605)
Total cash costs $(000)(1)	93,620	20,362	113,982	91,737	18,367	110,104
Total cash costs per ounce sold $(2)	1,568	1,696	1,590	701	1,018	739
Average spot gold price per ounce $	n/a	n/a	1,569	n/a	n/a	1,225
Average realized gold price per ounce sold $	1,493	1,515	1,497	949	1,081	965

The following notes are applicable to the above two tables:

(1) Total cash costs used in the calculation of cash costs per ounce is calculated as mining operating expenses from the consolidated statement of comprehensive income (loss) excluding accretion expense related to the decommissioning and restoration provision, non-cash expense for impairment of inventories and non-cash change in the allowance for doubtful collection of VAT receivable.

(2) Cash costs per ounce sold is a non-IFRS measure. Total cash costs per ounce sold is calculated by dividing the total cash costs by the gold ounces sold during the period. Cash costs per ounce sold includes all expenditures related to the mine such as mining, processing, administration, royalties and production taxes but excludes reclamation, capital and exploration expenditures, impairments of inventories and the change in the allowance for doubtful collection of VAT receivable.

2.1 Choco Mine

Results for Q4 2011:

- During Q4 2011, the Choco Mine produced 6,713 ounces compared to 22,501 ounces in Q4 2010. This decrease was due to a decrease in the tonnes milled to 241,000 tonnes from 411,000 tonnes in Q4 2010 as well as a decrease in the head-grade of the ore processed to 1.29 g/t from 1.71 g/t in Q4 2010.

- The decrease in ore processed was due to the decrease in tonnage mined. Revenue from exports is paramount to the Company. On September 16, 2011, the Decree prohibited gold exports forcing the Company to sell all gold to the CBV, proceeds of which are collectible in BsF at the official exchange rate of BsF 4.30/$1.00. The lack of gold exports negatively impacted mining operations through decreased ability to fund sustaining capital expenditure, key consumables and services payable in US dollar. The US dollar cash flow constraints generated by reduced exports in turn caused lower production levels, in an iterative cycle.

- Cash cost per ounce sold increased to $2,262 in Q4 2011 from $764 in Q4 2010. This increase is due to higher costs resulting from the Venezuelan inflation rate and lower gold production as explained above.

Results for 2011:

- During 2011, the Choco Mine produced 53,194 ounces compared to 90,087 ounces in 2010. This decrease was due to a decrease in the tonnes milled and the head-grade of the ore processed to 1.3 million tonnes and 1.37 g/t, respectively, in 2011 from 1.8 million tonnes and 1.62 g/t in 2010. The decrease in ore processed was due to the decrease in tonnage mined for the reasons explained above

- Cash cost per ounce sold increased to $1,568 in 2011 from $701 in 2010. This increase is due to lower gold production for the reasons explained above, lower-ore grade and the impact of Venezuelan inflation.

2.2 Isidora Mine

On December 23, 2008, the Company started proportionately consolidating its 50% share of the underground Isidora Mine, which the Company operated as part of the Joint Venture with the Venezuelan government.

Results for Q4 2011:

- During Q4 2011, the Isidora Mine produced 1,734 ounces compared to 1,661 ounces in Q4 2010. This gold production resulted from tonnes milled of 5,000 in Q4 2011 and 5,000 in Q4 2010. The head-grade of ore processed decreased from 18.58 g/t in Q4 2010 to 10.24 g/t in Q4 2011.

- Cash cost per ounce sold increased to $2,682 during Q4 2011 from $1,116 during Q4 2010. This increase is due to lower grade of ore processed, the Venezuela inflation impacting costs and the minimum mining activity level at the Isidora Mine.

Results for 2011:

- During 2011, the Isidora Mine produced 11,245 ounces compared to 11,096 ounces in 2010. This increase in gold production resulted from an increase in tonnes milled to 28,000 in 2011 from 25,000 tonnes in 2010. During 2011 the head-grade of ore processed decreased from 16.71 g/t in 2010 to 11.36 g/t in 2011.

- Cash cost per ounce sold increased to $1,696 during 2011 from $1,018 during 2010. This increase is due to a lower ore-grade and the increase in costs resulting from the Venezuelan inflation rate.

2.3 Exploration and Development

San Rafael El Placer

During Q4 2011 pre-commercial production ore from San Rafael El Placer ("SREP") continued to be processed at the Choco Mine Mill. During 2011 pre-commercial production revenues were realized for 6,135 ounces of finished gold ($9 million) and correspondingly reduced from mineral properties on the Company's consolidated statement of financial position.

Increible 6

Prior to the Nationalization, all required government-issued permits had been obtained for the commencement of the exploitation activities at Increible 6 however the Company was not able to start mining operations at Increible 6 until all illegal occupiers were removed from the property. The Company was having discussions with the illegal occupiers and the Ministry of Mines in order to reach a solution favorable for all parties but all discussions were suspended pursuant to the Nationalization.

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

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

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

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

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

2.4 Corporate

See "Consolidated Results of Operations" section above for discussion of Q4 2011 general and administrative expenses and gains and losses recognized on the revaluation of warrants with Canadian dollar exercise prices.

3. VENEZUELAN CURRENCY EXCHANGE AND GOLD SALES

In 2003, the Venezuelan government implemented foreign exchange controls which fixed the rate of exchange between the Venezuelan Bolivar ("Bs") and the US dollar. Effective January 1, 2008 the Venezuelan government changed the name of the currency to the Venezuelan Bolivar Fuerte and modified the currency by fixing the official rate at BsF 2.15/$1.00. On January 11, 2010 the CBV and Ministry of Finance passed Exchange Agreement No. 14, which modified the currency by fixing the official exchange rate at BsF 4.30/$1.00 for most goods and services and BsF 2.60/$1.00 for certain priority items, such as basic foods, medicines and industrial equipment. In October of 2005, the Venezuelan government enacted the Criminal Exchange Law, which imposes sanctions on the exchange of BsF with foreign currency unless the exchange is made by officially designated methods. The exchange regulations did not apply to transactions with certain securities denominated in BsF, which could be swapped for securities denominated in another currency effectively resulting in a swap market ("the Swap Market") which provided an implicit value for the exchange rate for the BsF/US dollar ("the Implicit Exchange Rate").

Effective May 17, 2010, the Venezuelan government enacted the Reform of the Criminal Exchange Law which aims to regulate the Swap Market. The Reform of the Criminal Exchange Law effectively closed the Swap Market and as a result the Company is no longer able to use the Implicit Exchange Rate to translate BsF transactions and balances.

On June 9, 2010 the Venezuelan government enacted additional reforms to its exchange control regulations and introduced Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME"), a newly regulated foreign exchange system controlled by the CBV. The SITME imposes volume restrictions on the conversion of BsF to US dollars of $350,000 per month per Venezuelan entity that meets the SITME requirements; Promotora Minera de Guayana, P.M.G., S.A. is registered with SITME.

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

On June 16, 2009, the CBV passed Resolution No. 09-06-03 which became effective June 22, 2009, that replaced Resolution No. 09-04-03 that the CBV had passed on April 30, 2009. Resolution No. 09-06-03 mandated that for companies in which the Venezuela State has an interest of less than 50%, at least 60% of the gold produced in the country in each calendar quarter was required to be offered for sale to the CBV and up to 10% can be offered for sale to the domestic processing industry. The remaining 30% of the gold produced in Venezuela could be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV. In companies in which the Venezuelan State has an interest of 50% or greater, of the gold produced in the country in each calendar quarter, at least 25% was required to be offered for sale to the CBV and up to 25% could be offered for sale to the domestic processing industry. The remaining 50% could be exported or offered for sale to the CBV, at the option of the gold producer after obtaining authorization from the CBV. On July 15, 2010, the CBV passed Resolution No. 10-07-01 that replaced Resolution No. 09-06-03 and the CBV and Ministry of Finance passed an updated Exchange Agreement No. 12 that replaced the previous version.

Resolution No. 10-07-01 and the updated Exchange Agreement No. 12 became effective August 12, 2010. Resolution No. 10-07-01 mandates that 50% of gold produced in the country in each calendar quarter must be offered for sale to the CBV and after obtaining authorization to export from the CBV, the remaining 50% can be exported or offered for sale to the CBV, at the option of the gold producer. Authorization to export is obtained in the form of renewable permits, which are provided by the CBV and which expire 45 days from issuance. The updated Exchange Agreement No. 12 mandates that for companies in which the Venezuelan state has an interest of less than 50%, 50% of proceeds from gold exports collected in a currency other than BsF can be used for certain direct payments in foreign currency for items which are to be further defined by the CBV. The remaining 50% of the proceeds from gold exports must be exchanged for BsF with the CBV at the official rate of BsF 4.30/$1.00. For companies in which the Venezuelan State has an interest of 50% or greater, all proceeds from gold exports collected in a currency other than BsF can be used for certain direct payments in foreign currency for items which are to be further defined by the CBV.

Prior to the updated Exchange Agreement No. 12 as described above, for companies in which the Venezuelan State has an interest of less than 50%, proceeds from gold exports collected in a currency other than BsF were required to be exchanged for BsF with the CBV at the official rate of BsF 4.30/$1.00 and companies in which the Venezuelan State has an interest of 50% or greater could use the proceeds from gold exports collected in a currency other than BsF to make direct payments in foreign currency.

Prior to the publication of the Decree on September 16, 2011, the Company exported a portion of its finished gold production in accordance with the terms of the CBV Resolution No 10-07-01 and the updated Exchange Agreement No. 12, with the remaining finished gold production being sold to the CBV. The Company was not able to maximize its export quota as a result of constant delays from the CBV in granting export permits to the Company. Both types of sales were based on the international US dollar spot gold price, less a discount of 1.5% for CBV sales and 4.5% for export sales. Payments for sales to the CBV are received in BsF at the official exchange rate of BsF 4.30/$1.00; payments for export sales are received in US dollars.

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

4. SELECTED QUARTERLY INFORMATION

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue $(000)	22,237	30,034	26,567	28,495	33,497	42,688	51,144	16,343
Net (loss) profit attributable to equity shareholders of the Company $(000)	(744,779)	(2,013)	(9,717)	(1,285)	9,083	5,816	3,172	868
Basic and diluted (loss) earnings per share $	(1.40)	(0.01)	(0.02)	(0.00)	0.02	0.01	0.01	0.00

The Company has experienced volatility in its results over the eight most recently completed quarters. Revenues from gold sales have been volatile especially in the quarters of 2010 arising from uncertainties in relation to the issuance, interpretation and continuity of the resolutions and exchange agreements described in the "Venezuela Currency Exchange and Gold Sales" section and in subsequent quarters due to volatile and decreasing gold production affected by the Company's deteriorating financial situation in Venezuela. Net profit/loss has been volatile due to the volatility of revenue and production levels impacting mining operating expenses and in Q4 2011 the impact of a large impairment adjustment as a result of the expropriation of the Company's mining assets subsequent to year end.

5. FINANCIAL POSITION

The Company's assets totaled $27 million as at December 31, 2011 (December 31, 2010: $984 million). Total assets primarily consisted of $3 million in cash (December 31, 2010: $4 million), $6 million in receivables (current and non-current) (December 31, 2010: $27 million), $6 million in inventories (December 31, 2010: $38 million) which are recorded at the lower of cost and net realizable value, $12 million in prepaid expenses, deposits and advances to suppliers (December 31, 2010: $13 million),

A significant amount of the Company's liabilities, including accounts payable and accrued liabilities of $79 million as at December 31, 2011 (December 31, 2010: $54 million) are monetary items and have been translated from BsF to US dollars at the official exchange rate of BsF 4.30/$1.00 at December 31, 2011.

The Company's current assets less current liabilities (working capital) decreased $89 million since December 31, 2010 to a negative working capital as at December 31, 2011 of $119 million (December 31, 2010: $30 million). This is a result of declining operating results during 2011, extending payment terms with vendors in order to conserve cash and the reclassification of the decommissioning and restoration provision and the accruals for termination benefits from non-current to current as a result of the Nationalization.

A convertible loan of $30 million (December 31, 2010: $29 million), which became due on June 10, 2011, represents the balance of the convertible loan's principal owing at December 31, 2011. The convertible loan was being accreted at an effective interest rate of 21% (contractual rate of 10%) until its due date of June 10, 2011. Since it became due, the defaulted loan continues to incur interest at a new contractual rate of 11% (previously 10%). At December 31, 2011, the balance of the related equity component of the convertible loan, which is attributable to the convertible option of the lenders and disclosed within the Company's equity, was $nil (December 31, 2010: $1 million). Upon reaching the maturity date of the loan, convertible options not exercised were extinguished.

The Company did not perform the repayment of the convertible loan on the June 10, 2011 maturity date and, as at April 27, 2012, the original principal and accrued interest of $30 million and $3.80 million, respectively, continue to incur interest. The Company is in discussions with the lenders for the granting of a formal extension to the convertible loan repayment period for a sufficient amount of time to allow the Company to obtain a fair compensation from the Venezuelan government as a result of the Nationalization, either through settlement agreement or arbitration award. The loan is held in US dollars and is secured by share pledges over the Company's subsidiaries which prior to the Nationalization held the mining concessions for the Choco Mine and the San Rafael El Placer and Increible 6 mineral properties, but excluding the Isidora Mine.

As a result of the Nationalization, the Company's mining assets were expropriated on March 14, 2012, hence the Company recorded a write-down adjustment to its Venezuelan mineral property and property plant and equipment to $nil at December 31, 2011. Concurrent with this adjustment, the Company wrote-down to $nil the balance of the deferred tax assets and fully reversed to income the total balance of deferred tax liability as at December 31, 2011, as the temporary differences between the tax and accounting value of the property, plant and equipment and mineral properties were eliminated when these assets written-down to $nil. Also at this time, the materials and supplies inventory was written down to $nil as well as a portion of the stockpile inventory.

As a result of the significant asset write-down mentioned above, as at December 31, 2011 the Company presents a shareholder's deficiency rather than equity on the face of its balance sheet, as the Company's liabilities exceed the Company's assets.

6. LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position decreased $0.7 million during 2011. Net cash flows from operations of $30.5 million were offset by negative cash flows from investing activities of $31.1 million.

The decrease in cash flows from operations from an inflow of $42.7 million during 2010 to an inflow of $30.5 million during 2011 was mainly the result of the Company's declining operating results, as triggered by decreased production and revenues and increase in mining and operating costs which more than offset the significant decrease in working capital, excluding cash, during the year.

The increase in cash outflows from investing activities from an outflow of $18.6 million for 2010 to an outflow of $31.1 million for 2011 was primarily the result of the Company's funding of $33.5 million during 2011 into further development of its main mineral properties, SREP and Increible 6, as compared to a cash outflow of $16.6 million in 2010. The increase in cash expenditures between 2011 and 2010 is in large part due to the Change in Translation Rate. In addition, during 2011, capital expenditures of $13.5 million were made on property, plant and equipment as compared to 2010 expenditures, which totalled $5.8 million. The increase in expenditures on property, plant, and equipment relate mainly to exploration drilling costs incurred to further define ore bodies mainly in the Company's Choco 4 mining property (near-by Choco Mine) and the Change in Translation Rate. These increases were partially offset by proceeds of $9.0 million and $7.0 million generated by SREP and Choco 4, respectively, from incidental pre-commercial production revenue arising from the sale of gold recovered from ore extracted during the development of those properties and processed at the Choco Mine mill. During 2010, no incidental, pre-commercial production revenue was generated.

Management intends to work with vendors and other creditors to have them forbear on demanding currently due amounts while it pursues financing options available that would provide the Company with sufficient cash to repay ongoing commitments as they become due and pursue its arbitration proceedings against the Venezuelan government. These financing options are as follows:

- Receipt of compensation from the Venezuelan government within the next 12 months;
- Issuance of equity or debt securities; and
- Refinancing the Loan all or in part.

There is, however, no assurance that the sources of funding described above will be available to the Company, or that they will be available on terms and timely basis that are acceptable to the Company.

There are material uncertainties surrounding the Nationalization (Note 1), including, but not limited to the likelihood of reaching an amicable compensation with the Venezuelan government, participation in any Mixed Enterprise, the success in an arbitration proceedings against the Venezuelan government and the amount, timing and/or form of any compensation or arbitration award.

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

Practical restrictions exist on the ability of the Company to convert BsF to US dollars and to transfer funds from the Joint Venture to the Company's other subsidiaries. The restrictions on converting funds from BsF to US dollars arise as the Company no longer has access to the Swap Market and effective September 16, 2011, with the issuance of the Decree, the Company also no longer has the ability to export gold. Even though the Company has obtained access to SITME, there are volume restrictions as described in the "Venezuela Currency Exchange and Gold Sales" section.

The restrictions on transfers of funds from the Joint Venture arise from the fact that prior to the Nationalization all financial decisions impacting the Joint Venture were made in collaboration with the Company's joint venture partner, the Venezuelan government. These restrictions affect the Company's ability to use cash resources from the Joint Venture to fund the Company's operations in segments other than the Isidora Mine segment, including the repayment of the convertible loan. Cash as at December 31, 2011 includes $0.2 million held by the Joint Venture.

As at April 27, 2012, the Company has $0.9 million in cash and the $30 million principal portion of the convertible loan remains outstanding.

7. OUTLOOK

As a result of the Nationalization, the Company's sole recourse is to file a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") against the government of Venezuela alleging violations of the provisions of the Bilateral Treaty for the Protection of Investments entered between the governments of Canada and Venezuela. The Request for Arbitration cannot be filed by the Company earlier than June 15, 2012 as required by the BIT. In parallel the Company will continue to seek an amicable resolution with the Venezuelan government to reach an agreement for a fair compensation to the Company. The compensation must be monetary or include a monetary component that is appropriate to the Company and a participation in a Mixed Enterprise to jointly operate with the Venezuelan government mining concessions or projects in terms and conditions that are appropriate to the Company. Once the Request for Arbitration is filed, the Company's objective will be to diligently pursue the Arbitration Claim against the Venezuela government and to reduce the Company's general and administration expenses to a minimum so the Company's cash resources are available to fund the costs of the Arbitration Claim. The Company's additional objective is to secure debt financings in the near future to fund the costs of the Arbitration Claim and the Company's minimized general and administration expenses during the period of time that the Arbitration Claim will last as well as settling some of the outstanding liabilities. Additionally the Company's plan is to refinance the Loan all or in part and to enter into arrangements with its main vendors and creditors to restructure its payables.

8. COMMITMENTS AND CONTINGENCIES

As at December 31, 2011, the Company is committed to payments under operating leases for premises, vehicles and machinery and to payments under contracts for explosives, community relations, security, consulting and other services as follows:

	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
2012	$74	$67	$36	$77	$254
2013	-	-	-	77	77
2014	-	-	-	77	77
2015	-	-	-	6	6
2016 and thereafter	-	-	-	-	-
	$74	$67	$36	$237	$414

As at December 31, 2011, there were no commitments with respect to capital expenditures for additions to property, plant, and equipment or mineral properties.

Gold Reserve Lawsuit

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

In December 2008, Gold Reserve commenced a claim against the Company and an advisor of the Company ("the Advisor") seeking an injunction to restrain the Company's unsolicited take-over bid for Gold Reserve as well as general damages of $500 million and punitive damages of $50 million on the basis that the Advisor improperly used Gold Reserve's confidential information in advising the Company on the take-over bid. In February 2009, Gold Reserve obtained an interlocutory injunction to restrain the take-over bid. The Company subsequently served its defense and counterclaim in which it denied the allegations against it and sought damages of $102.5 million in respect of losses it has sustained as a result of the injunction's issuance.

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

Non-Compliance

During June 2010, the Company entered transactions in the normal course of operations that were not in compliance with certain Venezuelan laws and regulations. As a result of this non-compliance, the Company may be subject to fines to a maximum of $19.6 million and/or denial of the Company's ability to generate revenues. No amount has been accrued in the consolidated financial statements in connection with this matter since the outcome cannot be determined at this time.

Other Matters

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

9. OFF-BALANCE SHEET ARRANGEMENTS

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

10. RELATED PARTY TRANSACTIONS

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

- Included in amounts capitalized in mineral properties is $nil for the three-month period and $18 for the year ended December 31, 2011 related to the provision of technical and geological services and machinery rental from a company of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

- Included in accounts payable and accrued liabilities is $411 related to amounts due to a company which Andre Agapov, a director/officer of the Company and Jay Kaplowitz, a director of the Company, are an officer and director, respectively, and to a law firm, which Jay Kaplowitz, a director of the Company, is a partner. These amounts are unsecured, due on demand and non-interest bearing.

- Included in mining operating expenses is $40 for the three-month period and $215 for the year ended December 31, 2011 related to machinery rental from a company of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

- Included in general and administrative expenses is $28 for the three-month period and $110 for the year ended December 31, 2011 related to the rental of the Caracas office from a company that Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

- Included in general and administrative expenses are professional fees of $nil for the three-month period and $276 for the year ended December 31, 2011 related to legal services rendered in connection with the expansion of production facilities, and a credit of $22 related to the provision of other legal matters, paid to a law firm, of which, Jay Kaplowitz, a director of the Company, is a partner, which brings the total amount charged to general and administrative expenses for the year ended December 31, 2011 to $46

- Included in prepaids is $905 paid to a company of which Andre Agapov, a director/officer of the Company, and Jay Kaplowitz, a director of the Company, are an officer and a director, respectively.

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

11. DISCLOSURE OF OUTSTANDING SHARE DATA

As at April 27, 2012, the Company has 530,120,623 common shares issued and outstanding, 49,870,000 stock options to acquire an equal amount of common shares outstanding of which 49,870,000 were exercisable, and 123,750,000 warrants to acquire an equal amount of common shares outstanding.

12. CHANGES IN ACCOUNTING POLICIES

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not yet early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective January 1, 2012

- IAS 12, *Income Taxes* (Amended), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

- IFRS 7, *Financial Instruments: Disclosures* (Amended), requires additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

- IFRS 10, *Consolidated Financial Statements,* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

  - Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;

  - Defines the principle of control, and establishes control as the basis for consolidation;

  - Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and

  - Sets out the accounting requirements for the preparation of consolidated financial statements.

- IFRS 10 supersedes IAS 27 and SIC-12, *Consolidation – Special Purpose Entities*.

- IFRS 11, *Joint Arrangements,* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

- IFRS 12, *Disclosure of Involvement with Other Entities,* requires the disclosure of information that enables users of consolidated financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13, *Fair Value Measurement,* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for the following:

  - Share-based payment transactions within the scope of IFRS 2, *Share-based Payment*;

  - Leasing transactions within the scope of IAS 17, *Leases*; and

  - Measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories,* or value in use in IAS 36, *Impairment of Assets*.

- IAS 27, *Separate Financial Statements,* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

- IAS 28, *Investments in Associates and Joint Ventures,* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

- IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine,* summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

Accounting Standards Issued and Effective January 1, 2015

- IFRS 9, *Financial Instruments,* replaces the current standard IAS 39, *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011, as the date IFRS would replace Canadian GAAP for publicly accountable enterprises. As a result, the Company has prepared its current interim financial statements using IFRS accounting policies, with restatement for comparative purposes of amounts reported under Canadian GAAP. The Company's financial statements for the year ending December 31, 2011 will be its first annual financial statements that comply with IFRS.

As a result of the policy choices selected and the changes which were required under IFRS, a decrease in the Company's equity of approximately $37 million as at January 1, 2010 has been recorded. Please refer to Note 25 of the consolidated financial statements for the reconciliations between IFRS and Canadian GAAP for the statement of financial position as at December 31, 2010 and for the statement of comprehensive income for the year ended December 31, 2010. Reconciliations between IFRS and Canadian GAAP for the statement of cash flows for the year ended December 31, 2010 have not been provided as the actual cash flows of the Company were not affected by the transition to IFRS.

Significant differences between Canadian GAAP and IFRS are also provided in Note 25 of the consolidated financial statements.

14. INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2010, an internal controls report addressing disclosure controls and procedures and internal controls over financial reporting was provided to the Company by an external consultant engaged by management in an effort to improve the Company's disclosure controls and procedures and internal controls over financial reporting.

This report is based on interviews with selected business process owners supported by limited testing of the design and operational effectiveness of the financial controls. The significant key control weaknesses identified by the external consultants and the Company related to a lack of formalized process and responsibilities in specific areas, lack of communicated corporate policies in specific areas, lack of targets and expectations in specific areas, lack of or insufficient audit trail in specific areas and inappropriate segregation of duties in specific areas. Upon receipt of this report, management began to design and implement mitigating controls to address these weaknesses. During 2010, the Company created an internal audit department which reports directly to the Chief Financial Officer. The mandate of the internal audit department is to address the weaknesses identified.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that disclosure controls and procedures and internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Inherent limitations in internal controls include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls.

15. FINANCIAL INSTRUMENTS RISKS

Credit Risk

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

The Company's exposure to credit risk on its C$ and US dollar cash and short-term investments is limited by maintaining these assets with high-credit quality financial institutions and investing in highly rated corporations and government issuances in accordance with its investment policy as approved by the board of directors. The Company is exposed to the credit risk of Venezuelan banks, which hold cash for the Company's Venezuelan operations.

The Company limits its exposure to this risk by maintaining BsF cash balances to fund only the short-term needs of its Venezuelan subsidiaries. The Company is exposed to the credit risk of the CBV as the Company's trade receivables are due from the CBV.

Liquidity Risk

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

The table below provides a summary of the contractual obligations and payments related to financial liabilities included in the Company's consolidated statement of financial position as at December 31, 2011. The amounts disclosed are the contractual undiscounted cash flows.

	2011 $(000)	2012-2013 $(000)	Total $(000)
Accounts payable and accrued liabilities	$63,625	$-	$63,625
Interest on convertible loan	2,650	-	2,650
Convertible loan	30,000	-	30,000
Accrual for termination benefits	12,881	-	12,881
	$109,156	$-	$109,156

Market Risk

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

i. Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at December 31, 2011, a 1% increase in interest rates would decrease the fair value of convertible loan by $nil and a 1% decrease in interest rates would increase the fair value of the convertible loan by $nil, as the convertible loan is in default and is due immediately. In addition, a 1% increase in interest rates would decrease the fair value of the share purchase warrants with foreign currency exercise prices by $nil and a 1% decrease in interest rates would increase the fair value of the share purchase warrants with foreign currency exercise prices by $nil.

ii. Currency Risk

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

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 for US dollar operating and capital expenditures. As at December 31, 2011, the Company holds cash of $2.3 million (December 31, 2010: $3.6 million; January 1, 2010: $0.7 million) in BsF.

The sensitivity of the Company's net profit (loss) from financial assets and liabilities due to changes in the exchange rate between the BsF, C$ and the US dollar is summarized below:

	As at December 31, 2011	
	25% Increase in the BsF $(000)	25% Decrease in the BsF $(000)
Net (loss) profit	(13,696)	10,957

	As at December 31, 2011	
	10% Increase in the C$ $(000)	10% Decrease in the C$ $(000)
Net (loss) profit	(37)	37

16. OTHER RISKS AND UNCERTAINTIES

Gold Price Volatility

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. 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 continues to produce gold, there can be no assurance that the realized gold price will be high enough to enable the Company to sell the gold produced by it profitably.

Title Risk

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company 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.

Effective beginning March 15, 2012, in accordance with the procedures outlined in the Decree, all of the Company's mining concessions and titles expired by force of the Decree and all its assets and operations reverted to the Venezuelan government who took possession and control of the assets and operations in accordance with Venezuelan law becoming the new operator.

There are many material uncertainties surrounding the Nationalization, including, but not limited to, the amount of any compensation to be paid to the Company for its decrease in ownership of its Venezuelan mining assets, either through amicable settlement or agreement with the Venezuelan Government or upon receipt of an arbitration award from ICSID, the timing of receipt of any such compensation, the Company's percentage of ownership in the Mixed Enterprise, if any, and the structure of the transaction. The inability to reach a fair compensation, either through negotiation or other means, or inability to make successful collection of any such compensation could hinder the Company's ability to continue as a going concern.

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

Additional funding requirements

The Company will need to raise additional funds to pursue international arbitration and for general working capital. The Company has limited access to financial resources as a direct result of the Nationalization and there is a risk that sufficient additional financing may not be available to the Company terms that are acceptable to the Company, or at all, as a consequence of the Government of Venezuela's conduct. If the Company is not successful in its initiatives potential actions by the creditors and vendors may have negative consequences for the shareholders.

Country Risk

The Company's mineral exploration and exploitation activities may be adversely affected by political instability and legal and economic uncertainty in the country 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 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 Company does not maintain environmental liability insurance. The Company 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. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. 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 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 Company 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.

Production Risks

The Company prepares estimates of future production at its operations. Failure to meet these estimates could adversely affect the Company'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.

Dependence on Key Management Personnel

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

Common Share Price Volatility

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

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

17. CAUTIONARY NON-IFRS MEASURES

Total cash costs per ounce sold is a non-IFRS measure. The Company believes that, in addition to conventional measures, prepared in accordance with IFRS, 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 IFRS as it does not have any standardized meaning prescribed by IFRS. 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.

18. FORWARD LOOKING STATEMENTS

Certain statements in this MD&A and certain information incorporated herein by reference constitute "forward-looking information" within the meaning of applicable securities laws. Such forward-looking information includes, without limitation, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future price of gold and other precious metals, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, reserve determination and reserve conversion rates. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or words and phrases that state or indicate that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. While the Company has based these statements on its expectations about future events as at the date that such information was prepared, the statements are not guarantees of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking information. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A which may prove to be incorrect, include, but are not limited to: (1) 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; (9) labour and material costs increasing on a basis consistent with the Company's current expectations; and (10) expropriation or nationalization of any of the Company's assets by the government of Venezuelan.

Known and unknown factors could cause actual results or events to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets; fluctuations in the spot and forward price of gold or certain other commodities (such as diesel fuel and electricity); changes in interest rates; disruption to the credit markets and delays in obtaining financing; inflationary pressures; changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Canada, Venezuela or other countries in which the Company does or may carry on business; business opportunities that may be presented to, or pursued by the Company; the Company's ability to successfully integrate acquisitions; operating or technical difficulties in connection with mining or development activities; actual results of exploration activities; the possibility of cost overruns or unanticipated expenses; employee relations; illegal miners; the speculative nature of gold exploration and development, including the risks of obtaining and renewing necessary licenses and permits; the impact of Venezuelan law on the Company's operations; diminishing quantities or grades of reserves; adverse changes in the Company's credit rating; contests over title to properties particularly title to undeveloped properties; the occurrence of natural disasters, hostilities, acts of war or terrorism; corruption and uncertain legal enforcement; requests for improper payments; on the Company's ability to market gold produced and on its results of operations; on the Company's ability to obtain necessary authorizations from the CBV to export gold and on the Company's ability to retain any portion of the funds from sales of exported gold outside of Venezuela; on the ability to access SITME which impact the Company's ability to obtain US dollars to fund operating and capital expenditures; the result or outcome of management's efforts to remediate the potential implications of the transactions that were not in compliance with certain Venezuelan laws and regulations; and the result or outcome of the statement of claim filed by Gold Reserve against the Company in the Ontario Superior Court of Justice claiming general damages and punitive damages in the amount of $200 million. In addition, there are risks and hazards associated with the business of gold exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formation, pressures, cave-ins, flooding and gold bullion losses (and the risk of inadequate insurance, or inability to obtain insurance to cover these risks). All of the forward-looking statements made in or incorporated by reference in this MD&A are qualified by these cautionary statements and those made in the section of this MD&A entitled "Financial Instruments Risks" and "Other Risks and Uncertainties".

Although we have attempted to identify factors that may cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements or events to not be as anticipated, estimated or intended. Also, many of the factors are beyond our control. As actual results and future events could differ materially from those anticipated in such statements and information, readers should not place undue reliance on forward-looking statements or information. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. All forward-looking statements and information made or incorporated by reference herein are qualified by this cautionary statement.