



**RUSORO MINING LTD.**  
**Consolidated Financial Statements**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(Expressed in US dollars, except per share amounts)**

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# Independent auditor's report

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To the Shareholders of Rusoro Mining Ltd.:

We have audited the accompanying consolidated financial statements of Rusoro Mining Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates

made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rusoro Mining Ltd. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that on March 14, 2012 all of the Company's mining concessions expired by force of law and all of its assets and operations reverted to the Venezuelan government. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada  
April 25, 2017



Chartered Professional Accountants

**RUSORO MINING LTD.**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2016 and 2015**  
**(Expressed in US dollars, except per share amounts)**



|  | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|--|------------------------------|----------------------|
| <b>ASSETS</b>                                      |                              |                      |
| <b>Current Assets</b>                              |                              |                      |
| Cash   | \$ 1,968,843                 | \$ 36,153            |
| Receivables  | 5,413                        | 1,374                |
| Prepays  | 3,437                        | -                    |
|  | <u>\$ 1,977,693</u>          | <u>\$ 37,527</u>     |
| <b>LIABILITIES</b>                                 |                              |                      |
| <b>Current Liabilities</b>                         |                              |                      |
| Accounts payable and accrued liabilities (Note 4)  | \$ 38,943,312                | \$ 34,485,486        |
| Convertible loan (Note 7)                          | 30,000,000                   | 30,000,000           |
| Decommissioning and restoration provision (Note 6) | 954,074                      | 1,318,905            |
| Derivative financial liability (Note 5)            | 13,006,348                   | 10,792,767           |
| Income taxes payable                               | 24,738                       | 83,894               |
| Other current provisions                           | 20,384                       | 69,127               |
| Promissory notes payable (Note 8)                  | 3,398,126                    | -                    |
|  | <u>86,346,982</u>            | <u>76,750,179</u>    |
| <b>SHAREHOLDERS' DEFICIENCY</b>                    |                              |                      |
| Issued capital                                     | 737,124,445                  | 736,385,169          |
| Contributed surplus                                | 64,864,064                   | 65,158,974           |
| Deficit  | (866,688,331)                | (858,587,328)        |
|  | <u>(64,699,822)</u>          | <u>(57,043,185)</u>  |
| Non-controlling interests                          | (19,669,467)                 | (19,669,467)         |
|  | <u>(84,369,289)</u>          | <u>(76,712,652)</u>  |
|  | <u>\$ 1,977,693</u>          | <u>\$ 37,527</u>     |

Nature of operations (Note 1)  
Basis of presentation and going concern assumption (Note 2)  
Commitments and contingencies (Note 16)

Approved by the Board of Directors and authorized for issue on April 25, 2017:

\_\_\_\_\_  
"Andre Agapov" Director

\_\_\_\_\_  
"Gordon Keep" Director

See accompanying notes to the consolidated financial statements.

**RUSORO MINING LTD.**  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**For the years ended December 31, 2016 and 2015**  
**(Expressed in US dollars, except per share amounts)**



|  | Year ended December 31, |                      |
|--|-------------------------|----------------------|
|  | 2016                    | 2015                 |
| <b>OPERATING EXPENSES</b>  |                         |                      |
| General and administrative, net of recoveries (Note 10)                  | \$ 1,767,488            | \$ 809,792           |
| Foreign exchange gain  | (20,727)                | (192,662)            |
|  | <u>(1,746,761)</u>      | <u>(617,130)</u>     |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                                     |                         |                      |
| Interest on convertible loan (Note 7)                                    | 5,796,361               | 5,183,868            |
| Interest on gold sale contract (Note 5)                                  | 1,609,824               | 762,105              |
| Loss (gain) on revaluation of gold sale contract (Note 5)                | 603,757                 | (809,660)            |
| Increase in decommissioning and restoration provision (Note 6)           | 1,915,058               | 14,348,439           |
| Other income   | (50,000)                | -                    |
| Foreign exchange gain on currency devaluation (Note 2(b))                | (3,520,758)             | (93,821,703)         |
|  | <u>6,354,242</u>        | <u>(74,336,951)</u>  |
| <b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>                 | <u>(8,101,003)</u>      | <u>73,719,821</u>    |
| <b>Attributable to:</b>  |                         |                      |
| Equity shareholders of the Company                                       | (8,101,003)             | 73,719,821           |
|  | <u>\$ (8,101,003)</u>   | <u>\$ 73,719,821</u> |
| <b>INCOME (LOSS) PER SHARE</b>   |                         |                      |
| Basic and diluted (Note 18)  | \$ (0.02)               | \$ 0.14              |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b> - Basic and diluted | 533,159,938             | 532,621,000          |

See accompanying notes to the consolidated financial statements.

**RUSORO MINING LTD.**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2016 and 2015**  
**(Expressed in US dollars, except per share amounts)**



|                                   | Issued capital     |                       | Contributed surplus  | Deficit                 | Non-controlling interests | Shareholders' Deficiency |
|-----------------------------------|--------------------|-----------------------|----------------------|-------------------------|---------------------------|--------------------------|
|                                   | Shares             | Amount                |                      |                         |                           |                          |
| <b>Balance, December 31, 2014</b> | 532,620,623        | \$ 736,385,169        | \$ 65,158,974        | \$ (932,307,149)        | \$ (19,669,467)           | \$ (150,432,473)         |
| Comprehensive income              | -                  | -                     | -                    | 73,719,821              | -                         | 73,719,821               |
| <b>Balance, December 31, 2015</b> | <u>532,620,623</u> | <u>\$ 736,385,169</u> | <u>\$ 65,158,974</u> | <u>\$ (858,587,328)</u> | <u>\$ (19,669,467)</u>    | <u>\$ (76,712,652)</u>   |
| Exercise of stock options         | 6,100,000          | 739,276               | (307,034)            | -                       | -                         | 432,242                  |
| Share-based compensation          | -                  | -                     | 12,124               | -                       | -                         | 12,124                   |
| Comprehensive loss                | -                  | -                     | -                    | (8,101,003)             | -                         | (8,101,003)              |
| <b>Balance, December 31, 2016</b> | <u>538,720,623</u> | <u>\$ 737,124,445</u> | <u>\$ 64,864,064</u> | <u>\$ (866,688,331)</u> | <u>\$ (19,669,467)</u>    | <u>\$ (84,369,289)</u>   |

See accompanying notes to the consolidated financial statements.

|   | <b>Year ended December 31,</b> |                  |
|---|--------------------------------|------------------|
|   | <b>2016</b>                    | <b>2015</b>      |
| <b>CASH DERIVED FROM (USED IN)</b>                    |                                |                  |
| <b>OPERATING ACTIVITIES</b>                           |                                |                  |
| Net loss for the period                               | \$ (8,101,003)                 | \$ 73,719,821    |
| Adjustments for items not involving cash:             |                                |                  |
| Share-based compensation                              | 12,124                         | -                |
| Interest on gold sale contract                        | 1,609,824                      | 762,105          |
| Interest on convertible loan                          | 5,796,361                      | 5,183,868        |
| Increase in decommissioning and restoration provision | 1,915,058                      | 14,348,439       |
| Foreign exchange gain on currency devaluation         | (3,520,758)                    | (93,821,703)     |
| Loss (gain) on revaluation of gold sale contract      | 603,757                        | (809,660)        |
| <br>  |                                |                  |
| Changes in non-cash working capital items (Note 13)   | (323,848)                      | 473,316          |
|   | <u>(2,008,485)</u>             | <u>(143,814)</u> |
| <b>FINANCING ACTIVITIES</b>                           |                                |                  |
| Proceeds on stock options exercised                   | 432,242                        | -                |
| Proceeds from promissory notes payable                | 3,398,126                      | -                |
| Advances from related parties                         | 110,807                        | 168,810          |
|   | <u>3,941,175</u>               | <u>168,810</u>   |
| <br>  |                                |                  |
| <b>Foreign exchange effect on cash</b>                | -                              | (181,000)        |
| <br>  |                                |                  |
| <b>INCREASE (DECREASE) IN CASH</b>                    | 1,932,690                      | (156,004)        |
| Cash – beginning of year                              | 36,153                         | 192,157          |
| <b>Cash – end of year</b>                             | <u>\$ 1,968,843</u>            | <u>\$ 36,153</u> |

Supplemental cash flow information (Note 13)

See accompanying notes to the consolidated financial statements.

## **1. NATURE OF OPERATIONS**

Rusoro Mining Ltd. (the "Company" or "Rusoro") was incorporated under the laws of the Province of British Columbia on March 1, 2000. The registered office of the Company is 1500-1055 West Georgia Street, Vancouver, British Columbia and the corporate headquarters is located at 3123-595 Burrard Street, Vancouver, British Columbia, Canada. The principal business activities of the Company are the operation, acquisition, exploration and development of gold mining and mineral properties.

The Company received mining concessions in Venezuela for the exploration, development and exploitation of alluvial and vein gold. Until March 14, 2012, the Company owned two producing gold mines in Venezuela. It held a 95% ownership interest in the Choco 10 mine (the "Choco Mine") which was acquired on November 30, 2007 and a 50% ownership interest in the Isidora mine (the "Isidora Mine") which was acquired on December 23, 2008. The Company operated the Isidora Mine under a joint venture agreement with the Venezuelan government (Note 15).

On September 16, 2011, the Venezuelan government, through publication in the Official Gazette of Venezuela, enacted a law-decree (the "Decree") reserving the government of Venezuela exclusive rights over the extraction of gold in Venezuela (the "Nationalization"). The Decree mandated the expiration of all mining concessions held by the Company and their reversal to the Venezuelan government except for those in which the Company and the Venezuelan government agree to continue operating jointly in the form of a mixed-interest enterprise (the "Mixed Enterprise") and in which the Company could not own more than a 45% share participation.

The Company was unable to agree 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 March 14, 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 of its assets and operations reverted to the Venezuelan government who took possession and control of the assets and operations in accordance with Venezuelan law, thereby becoming the new operator and employer.

Management determined the Company's sole recourse was 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 "Treaty"). This request was filed on July 17, 2012. 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 continued to seek an amicable resolution with the Venezuelan government.

In June 2012, the Company entered into a Creditors and Shareholders Agreement (the "CSA") with significant equity holders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

Also in June 2012, the Company entered into a litigation funding agreement (the "Litigation Funding Agreement") with a subsidiary (the "Funder"), of the Calunius Litigation Risk Fund LP (the "Fund"). Calunius Capital LLP is the exclusive investment advisor to the Fund, which specializes in funding commercial litigation and arbitration claims. Under the terms of the Litigation Funding Agreement, the Funder agreed to assist in the funding of Rusoro's legal costs in relation to the international arbitration proceedings against the Republic of Venezuela (the "Respondent" or "Venezuela") on a non-recourse basis. Rusoro continued to have complete control over the conduct of the international arbitration proceedings, insofar as the proceedings relate to the Company's claims, and continued to have the right to settle with the Respondent, discontinue proceedings, pursue the proceedings to trial and take any action Rusoro considers appropriate to enforce judgment.

The Litigation Funding Agreement provides contingent consideration to the Funder and other select parties as described in Note 16 and resulted in an amendment to the terms of the Gold Sale Contract adding an annual interest rate of 11% (Note 5).



## **1. NATURE OF OPERATIONS (Continued)**

On August 22, 2016, the Arbitral Tribunal ("Tribunal") operating under the ICSID Additional Facility Rules, awarded ("the Award") the Company compensation of \$967.77 million plus pre and post award interest which currently equates to in excess of \$1.2 billion. No value has been accrued for the Award as at December 31, 2016, as the final settlement amount and the timing of the receipt of the Award is uncertain.

In its Award, the Tribunal upheld the Company's claims that Venezuela breached its obligations under the Treaty by unlawfully expropriating the Company's investments without paying compensation and by imposing certain restrictions on the export of gold. As a result of these breaches, the Tribunal ordered Venezuela to pay compensation of \$967.77 million as of the date of the expropriation (16 September 2011), together with interest accrued between that date and the date of actual payment, calculated at a rate p.a. equal to US\$ Libor for one year deposits, plus a margin of 4%, to be compounded annually. The amounts awarded must be paid net of any taxes imposed by Venezuela. The Tribunal also ordered Venezuela to contribute \$3.3 million towards Rusoro's costs in the arbitration.

The Award is due and payable immediately and Rusoro expects that Venezuela will comply with its international obligations and make payment of the Award. The Award is immediately enforceable in any of the over 150 member states party to the New York Convention.

Rusoro has received notice that the Bolivarian Republic of Venezuela ("Venezuela") had brought an application before the Paris Court of Appeal on October 19, 2016 to set aside ("recours en annulation") the Award, which was filed by Venezuela in 2017. Rusoro has instructed Freshfields Bruckhaus Deringer to represent it in these proceedings, with the support of a special correspondent.

The Company's cash balance of \$1,968,843 as at December 31, 2016, is held in bank accounts in which the Company retained full control after the Nationalization.

## **2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION**

### **a) Basis of Presentation**

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The date that the Board of Directors approved these consolidated financial statements for issuance was April 25, 2017.

### **b) Foreign Currency Translation**

In 2015, the Venezuelan government introduced a new open market system, "SIMADI." The SIMADI market is intended to have a floating exchange rate determined by market participants. The Company adopted the SIMADI rate to remeasure BsF denominated monetary assets and liabilities of its Venezuelan subsidiary to the U.S. dollar as of December 31, 2015. The SIMADI exchange rate as of December 31, 2015 was 198.7 BsF to the U.S. dollar. In February 2016, the Venezuelan government replaced the SIMADI exchange rate mechanism with the DICOM free floating exchange rate mechanism. The DICOM exchange rate at December 31, 2016 was 673.83 BsF to the US dollar.

### **c) Going Concern Assumption**

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment, of material uncertainties related to events or conditions, such as those described above and herein, that may cast significant doubt upon the Company's ability to continue as a going concern.

## **2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION (Continued)**

### **c) Going Concern Assumption (continued)**

In March 2012, in accordance with the procedures outlined in the Decree, 100% of the Company's Venezuelan mining concessions expired by force of the Decree and the Company's assets and operations reverted to the Venezuelan government.

Under these circumstances, the Company maintains the position that the application of the going concern assumption is still appropriate, as courses of action have been identified and acted upon which will increase the likelihood of the Company's ability to repay its loan and its other liabilities as follows:

- 1) In August 2016, the Tribunal operating under the ICSID Additional Facility Rules, awarded the Company compensation of \$967.77 million plus pre and post award interest which currently equates to in excess of \$1.2 billion;
- 2) The Company continues to seek enforcement and collection of the Award and to negotiate the settlement of the Award with the Venezuelan government to reach mutually agreed-upon terms, including fair compensation paid to the Company which will be sufficient for the Company to repay all its outstanding liabilities;
- 3) In June 2012, the Company entered into the Litigation Funding Agreement whereby the Funder agreed to assist in the funding of Rusoro's legal costs in relation to the international arbitration proceedings against Venezuela on a non-recourse basis and funding of the Company's expected operating expenditures; and
- 4) Related to the Litigation Funding Agreement, the Company entered into the CSA with significant equity holders and creditors who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses.

There are material uncertainties surrounding the Nationalization (Note 1), including, but not limited to the timing and/or form of any compensation related to the Award. Management is making efforts to work with vendors and potential creditors not covered by the CSA to have them forbear on demanding currently due amounts while it pursues the above-mentioned courses of action. There is, however, no assurance that the sufficient sources of funding described above will be available to the Company, that they will be available on terms and a timely basis that are acceptable to the Company, or that the Company will be able to secure additional funding.

These financial statements have been prepared on the basis of a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2016, the Company had a net working capital deficiency (current assets minus current liabilities) of \$84,369,289. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of Consolidation

These consolidated financial statements include the financial statements of the Company, its subsidiaries, and joint arrangements. Intercompany balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The principal subsidiaries, joint arrangements, and the Company's ownership interests therein, are as follows:

| Company   | Location               | Ownership interest | Status              |
|---|------------------------|--------------------|---------------------|
| Promotora Minera de Guayana, P.M.G., S.A.         | Venezuela              | 95%                | Consolidated        |
| Minera Venrus C.A.                                | Venezuela              | 50%                | Proportionate Share |
| Minera Rusoro Venezolana C.A.                     | Venezuela              | 50%                | Proportionate Share |
| El Callao Gold Mining Company de Venezuela S.C.S. | Venezuela              | 50%                | Proportionate Share |
| Proyectos Mineros del Sur, PROMINSUR, C.A.        | Venezuela              | 100%               | Consolidated        |
| Corporacion Aurifera de El Callo, C.A.            | Venezuela              | 100%               | Consolidated        |
| Corporacion Minera Choco 9 C.A.                   | Venezuela              | 100%               | Consolidated        |
| Corporacion 80.000 C.A.                           | Venezuela              | 100%               | Consolidated        |
| Lamin Laboreos Mineros C.A.                       | Venezuela              | 100%               | Consolidated        |
| Mineria MS C.A.                                   | Venezuela              | 100%               | Consolidated        |
| General Mining de Guayana C.A.                    | Venezuela              | 100%               | Consolidated        |
| Krysos Mining S.A.                                | Venezuela              | 100%               | Consolidated        |
| Inversiones Yuruan C.A.                           | Venezuela              | 100%               | Consolidated        |
| Venezuela Holdings (BVI) Ltd                      | British Virgin Islands | 100%               | Consolidated        |

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Similarly, non-controlling interests in the components of comprehensive income (loss) are identified separately. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. A 5% non-controlling interest exists in Promotora Minera de Guayana, P.M.G., S.A. ("PMG"), which represents the outside interest's share of the carrying value of PMG, which owns the Choco Mine.

#### b. Basis of Measurement

These consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expenses as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

#### c. Significant Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements using accounting policies consistent with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### c. Significant Judgments, Estimates and Assumptions (continued)

The areas that require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to, the following:

*i. Interpretation of the Nationalization Decree*

The Company made assumptions about the extent of application of the Decree. Those assumptions include that the Company's receivables and prepaid expenses and all of the Company's liabilities will continue with the Company after the expiration, forced by the Decree, of its mining concessions.

*ii. Litigation, Possible Recovery and Related Success Fee Contingencies*

The Company made assumptions about the likelihood of litigation success, the possible recovery from litigation award, and the related impact on contingent success fees. Changes in these assumptions and related estimates may materially impact the carrying value of accounts payable and accrued liabilities and accounts receivable.

*iii. Decommissioning and Restoration Provision*

The Company assesses its provision for decommissioning and restoration on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for decommissioning and restoration provisions requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future decommissioning and restoration provision. The actual future expenditures may differ from the amounts currently provided.

*iv. Deferred Taxes*

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets.

#### d. Functional and Presentation Currency and Foreign Currency Translation

Since January 1, 2010, the Company's functional and presentation currency of all of its operations is the US dollar, as this is the principal currency of the economic environments in which they operate. Foreign currency transactions are initially recorded using the foreign currency rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange prevailing at the reporting date.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **d. Functional and Presentation Currency and Foreign Currency Translation (continued)**

In 2015, the Venezuelan government introduced a new open market system, "SIMADI." The SIMADI market is intended to have a floating exchange rate determined by market participants. The Company adopted the SIMADI rate to remeasure BsF denominated monetary assets and liabilities of its Venezuelan subsidiary to the U.S. dollar as of December 31, 2015. As a result of the change, the Company recorded a charge of \$93.8 million in statement of operations for the year ended December 31, 2015, primarily related to the revaluation of accounts payables and accruals and decommissioning and restoration liability. The SIMADI exchange rate as of December 31, 2015, was 198.7 BsF to the U.S. dollar.

In February 2016, the Venezuelan government replaced the SIMADI exchange rate mechanism with the DICOM free floating exchange rate mechanism. The DICOM exchange rate at December 31, 2016 was 673.83 BsF to the U.S. dollar.

#### **e. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

#### **f. Accrual for Termination Benefits**

The Company's Venezuelan subsidiaries accrue liabilities for their workers' termination benefits, which are payable when the working relationship between the employer and an employee comes to a close. Termination benefits are an acquired right of the worker based on the provisions of the Organic Labour Law ("OLL") and the collective bargaining agreements currently in effect. The OLL and the collective bargaining agreements also call for additional benefits that are applicable under certain circumstances and the Company has recorded an additional accrual for such liabilities.

#### **g. Provisions**

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured as the expenditure expected to be required to settle the obligation at the reporting date. In cases where it is determined that the effects of the time value of money are significant, the provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase of the provision due to the passage of time is recognized as a financing expense included within other expenses.

#### **h. Decommissioning and Restoration Provision**

The Company records a provision and corresponding asset for the present value of the estimated costs of legal and constructive obligations for future site reclamation, remediation and closure where the outflow of resources is probable and a reliable estimate can be made of the obligation. Over time, the provision is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement. The capitalized cost in the asset is amortized using either the unit of production method or the straight-line basis, as appropriate. The estimated present value of the obligation is reassessed on an annual basis or when new material information becomes available. Increases or decreases to the obligation usually arise due to changes in legal or regulatory requirements, the extent of environmental remediation required, methods of reclamation, cost estimates, or discount rates. Changes to the decommissioning and restoration provision are recorded with an offsetting charge to the related asset.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **i. Interest in Joint Operations**

The Company conducts a portion of its business through joint arrangements where the parties are bound by contractual arrangements establishing joint control over such arrangements and requiring unanimous consent of each of the parties regarding those activities that significantly affect the returns of the arrangement. The Company's interest in a joint arrangement is classified as either a joint operation or a joint venture depending on its rights and obligations in the arrangement. In a joint operation, the Company has rights to its share of the assets, and obligations for its share of the liabilities, of the joint arrangement, while in a joint venture, the Company has rights to its share of the net assets of the joint arrangement. For a joint operation, the Company recognizes in the consolidated financial statements, its share of the assets, liabilities, revenue, and expenses of the joint arrangement, while for a joint venture, the Company recognizes in the consolidated financial statements its investment in the joint arrangement using the equity method of accounting.

#### **j. Convertible Loan**

The convertible loan was initially recorded at fair value and subsequently measured at amortized cost. The convertible loan is allocated between the debt and equity components based on their respective fair values at the date of issuance and is recorded net of transaction costs. The equity component is estimated using the residual method and the debt component is accreted to the face value using the effective interest method, with the resulting charge recorded as accretion on convertible loan, which is included in interest on convertible loan in profit or loss.

In instances where the Company issues equity instruments to settle all or a part of the outstanding debt, the equity instruments are treated as consideration paid and are measured initially at fair value of the equity instruments issued, or when not reliably measurable, at the fair value of the financial liability extinguished. Any difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss. If the financial liability is not fully extinguished, and terms related to the remaining portion have been modified, the Company allocates the consideration paid between the extinguished portion and the modified portion.

#### **k. Income Tax**

The tax expense or benefit for the period consists of two components: current and deferred. Tax expense is recognized in profit or loss except to the extent it relates to a business combination or items recognized directly in equity or other comprehensive income (loss), in which case it is recognized in equity or in other comprehensive income (loss), respectively.

Current tax assets and liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases, unused tax credits and unused tax losses. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of deferred tax recovery or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income (loss) or equity, respectively.

#### **i. Share Capital**

Share capital issued for other than cash is valued at the price at which the stock trades at the time the risks and rewards of ownership of the asset are transferred to the Company or the Company's liability is extinguished.

Share issuance costs, such as commissions, facilitation payments, professional fees and regulatory fees are charged directly to share capital.

#### **m. Share-based Payments**

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option-Pricing model) for all share options granted to directors, employees and certain non-employees. In this model, expected volatility is determined from historical volatility, adjusted for normalizing factors. For directors and employees, the fair value of the share options is measured at the date of grant.

For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss or the related asset as applicable, with the offsetting credit to contributed surplus. For directors and employees, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in contributed surplus are transferred to share capital.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **n. Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) for the period attributable to the equity shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the treasury stock method which, for purposes of determining the weighted average number of shares outstanding, assumes that the proceeds to be received on the exercise of the share options and warrants are applied to repurchase common shares at the average market price for the period. Outstanding options, warrants and the equity component of the convertible loan are excluded from the calculation of diluted loss per share, as they are anti-dilutive.

#### **o. Financial Instruments**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, convertible loan, derivative financial liabilities and promissory notes payable. Cash and receivables are classified as loans and receivables and measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities, convertible loan and promissory notes payable are classified as other financial liabilities and measured at amortized cost using the effective interest method. Other financial liabilities, other than derivative financial liabilities, are recognized initially at fair value, net of transactions costs incurred and are subsequently stated at amortized cost. Any difference between amounts originally received (net of transaction costs) and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial assets are assessed for indicators of impairment at each reporting period end. Financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been negatively impacted, and this impact can be reliably estimated.

#### **p. Accounting Standards Issued But Not Yet Effective**

##### **Financial instruments**

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments (“IFRS 9”) which will be effective for annual periods commencing on or after January 1, 2018. IFRS 9 is intended to reduce the complexity for the classification and measurement of financial instruments.

##### **Revenue**

The IASB issued IFRS 15 - Revenue from Contracts with Customers, which replaces IAS 18 - Revenue, IAS 11 - Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted.

##### **Leases**

In January 2016, the IASB issued IFRS 16, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. The mandatory effective date of IFRS 16 for the Company is for the annual period beginning on or after July 1, 2019.

The Company has not yet early adopted these standards and is assessing the impact upon the implementation of these standards but they are not expected to have a material impact.



#### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|   | December 31,<br>2016 | December 31,<br>2015 |
|---|----------------------|----------------------|
| <b>Financial liabilities</b>                      |                      |                      |
| Accounts payable and accrued liabilities          | \$8,294,684          | \$8,287,986          |
| Accrual for termination benefits                  | 93,114               | 315,768              |
| Accrual for interest on convertible loan (Note 7) | 26,206,337           | 20,409,976           |
| Due to related parties (Note 11)                  | 4,349,177            | 5,471,756            |
|   | <u>\$38,943,312</u>  | <u>\$34,485,486</u>  |

*No accounts payable or accrued liability is identified as a non-financial liability. During the year ended December 31, 2016, \$1,132,970 (2015 - \$49,070,378) was recorded as a foreign exchange gain related to the devaluation of the Venezuelan currency.*

#### 5. DERIVATIVE FINANCIAL LIABILITY

In 2010 the Company received \$6,973,000 from a gold buyer, Vicolven Enterprises Inc. (“Vicolven”) in exchange for the delivery of 7,300 ounces of finished gold in 2011 and the commitment to issue 12,400,000 share-purchase warrants. No gold has been delivered with respect to this contract. In February 2011, the Company paid Vicolven a portion of the amount owing in US dollars in lieu of delivery of 700 ounces (as permitted by Vicolven) for a total of \$711,000. In relation to the Company’s commitment to issuing 12,400,000 share-purchase warrants, the \$330,000 value associated with these committed share-purchase warrants has been deducted from the proceeds of \$6,973,000 resulting in a net amount of \$6,643,000.

On September 20, 2011, as a result of the Decree and proposed nationalization of the Company’s Venezuelan gold mining assets by the government of Venezuela, a letter was written to the gold buyer, Vicolven Enterprises Inc., indicating that management no longer expects to settle the obligation with the delivery of finished gold as stated in the agreement. Instead, the Company will settle the outstanding, undelivered ounces of finished gold owing to Vicolven Enterprises Inc. in cash as permitted under the agreement with Vicolven.

On June 1, 2012, in relation to the Litigation Funding Agreement and the CSA, the Company signed an amendment with Vicolven whereby the Company agrees to pay interest of 11%, compounded annually, on the amount outstanding of 6,642 gold ounces. Interest will ultimately be payable in cash on the same terms as the original balance. Per the agreement, the interest payable was enacted retroactively to January 1, 2012.

Since the contract will be paid in cash in lieu of gold, and will no longer qualify for the own use exemption, it has been reclassified from deferred revenue to a derivative financial instrument. As of December 31, 2016, 11,291 (December 31, 2015 – 10,172) ounces of finished gold were still outstanding and valued at fair market value using the spot price of gold on December 31, 2016 of \$1,152 (December 31, 2015 - \$1,061) per ounce. Included in this amount is the principal amount of 6,642 gold ounces plus cumulative accrued interest of 4,649 (December 31, 2015 – 3,530) gold ounces for the period January 1, 2012 through December 31, 2016.

|                                   | December 31,<br>2016 | December 31,<br>2015 |
|-----------------------------------|----------------------|----------------------|
| <b>Balance, beginning of year</b> | \$10,792,767         | \$10,840,322         |
| Change in fair value of principal | 603,757              | (809,660)            |
| Fair value of interest expense    | 1,609,824            | 762,105              |
| <b>Balance, end of year</b>       | <u>\$13,006,348</u>  | <u>\$10,792,767</u>  |

## 6. DECOMMISSIONING AND RESTORATION PROVISION

Decommissioning and restoration provisions are comprised of costs associated with environmental rehabilitation. These costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at the net present value of future cash expenditures upon reclamation and closure using the information currently available.

Costs associated with decommissioning and restoration are capitalized depending on the nature of the asset related to the obligation and depreciated over the life of the asset. The decommissioning and restoration provision relates to reclamation and closure costs of the Company's operating Choco Mine and Isidora Mine, as well as to some of the exploration and development activities undertaken on the Company's mineral properties.

In view of the uncertainties concerning decommissioning and restoration, the ultimate cost of reclamation, remediation and closure activities could differ materially from the estimated amount recorded. The estimate of the Company's decommissioning and restoration provision is subject to change based on amendments to laws and regulations and as new information regarding the Company's operations becomes available.

Future changes, if any, to the provision as a result of amended requirements, laws, regulations, operating assumptions, estimated timing and amount of obligations may be significant and would be recognized prospectively as a change in accounting estimate. Any such change would result in an increase or decrease to the provision and a corresponding increase or decrease to the mineral property and/or property, plant and equipment balance(s).

|   | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---|------------------------------|----------------------|
| <b>Balance, beginning of year</b>       | \$1,318,905                  | \$27,229,490         |
| Change in estimate of future cash flows | (364,831)                    | (25,910,585)         |
| <b>Balance, end of year</b>             | <u>\$954,074</u>             | <u>\$1,318,905</u>   |

Due to the expiry by force of the Decree and reversal to the Venezuelan government of all of the Company's mining concessions on March 14, 2012, the Company's decommissioning and restoration provision became an on-demand liability on that date as opposed to be payable in accordance with the Company's long-term closure plan. Consequently as at December 31, 2016 and 2015, decommissioning and restoration provision was classified as current.

The decrease of \$364,831 during the year ended December 31, 2016 relates to a revision of the estimated future cash flows due to the devaluation of the Venezuelan currency of (\$2,279,889) (2015 – (\$40,259,024)) and an increase in expected inflation of \$1,915,058 (2015 - \$14,348,439).

## 7. CONVERTIBLE LOAN

In June 2008, the Company entered into an \$80,000,000 principal amount Convertible Loan (the "Loan") with a two year term and 10% annual interest to fund the acquisition of various Venezuelan mineral interests. During the years ended December 31, 2009 and 2010 the Company made various repurchases and restructured the Loan resulting in a reduced principal amount of \$30,000,000. During the year ended December 31, 2011 the conversion option expired and the Company defaulted on the Loan.

In June 2012, the Company entered into the CSA with significant equity holders and creditors (the "Lenders") who agreed not to take any steps or actions to exercise their rights and remedies against the Company until the expiration of a standstill period, subject to various clauses. In consideration for the CSA the Lenders were provided a contingent success fee in addition to amounts due and payable to the Lenders under the Loan of 20% of the value of the Loan (Note 16).

As at December 31, 2016, the loan was still in default and outstanding and carried an amount owing of \$26,206,337 (December 31, 2015 - \$20,409,976) in accrued interest.

## 7. CONVERTIBLE LOAN (Continued)

Subsequent to December 31, 2016, the Company's existing convertible loan of \$30,000,000 was transferred to a new group of investors. The Company bought \$250,000 of this debt and it has been retired. The remaining \$29,750,000 is still in default, however the new investors have become parties to the CSA. The Company received approximately \$865,000 from the proceeds of this transfer.

## 8. PROMISSORY NOTES PAYABLE

During the year ended December 31, 2016, the Company issued non-interest bearing promissory notes for subscription proceeds of \$3,398,126. The notes will become due and payable as to three times their subscription amount on the date that is ninety days from the date that the Company receives its first payment from the Venezuela government in respect of the Award issued in August 2016. Proceeds of the note financing received as at December 31, 2016 have been used to settle existing debt of approximately \$1,558,126 and the balance for working capital.

Subsequent to December 31, 2016, the Company issued additional promissory notes payable for subscription proceeds of \$2,101,874. The notes will become due and payable as to three times their subscription amount on the date that is ninety days from the date that the Company receives its first payment from the Venezuelan government in respect of the Award issued in August 2016.

## 9. EQUITY

### a. Authorized Share Capital of the Company

Unlimited number of common shares and preferred shares without par value.

### b. Share-based Payments

In December 2016, the Company adopted a rolling share option plan available to its directors, officers, consultants and key employees. The option plan reserves for issuance, pursuant to the exercise of share options, is limited to not more than 10% of the issued common shares of the Company at the time of grant. Options are non-transferable and may have a term of up to 10 years from the date of issue. Amount of options, vesting terms, conditions and exercise price are determined by the board of directors at the time of grant.

The following share options were outstanding and exercisable at December 31, 2016:

| Exercise Prices   | Options Outstanding           |                                 |   | Options Exercisable                 |                                 |
|-------------------|-------------------------------|---------------------------------|---|-------------------------------------|---------------------------------|
|                   | Number of Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Options Outstanding and Exercisable | Weighted Average Exercise Price |
| C\$0.05           | 9,880,000                     | C\$0.05                         | 6.00  | 9,880,000                           | C\$0.05                         |
| C\$0.10           | 200,000                       | C\$0.10                         | 9.35  | 200,000                             | C\$0.10                         |
| C\$0.14           | 5,600,000                     | C\$0.14                         | 0.09  | 5,600,000                           | C\$0.14                         |
| C\$0.20           | 3,290,000                     | C\$0.20                         | 3.71  | 3,290,000                           | C\$0.20                         |
| C\$0.60           | 11,000,000                    | C\$0.60                         | 2.35  | 11,000,000                          | C\$0.60                         |
| C\$1.31 – C\$1.55 | 11,125,000                    | C\$1.31                         | 1.52  | 11,125,000                          | C\$1.31                         |
| C\$2.12 – C\$2.30 | 4,550,000                     | C\$2.22                         | 0.81  | 4,550,000                           | C\$2.22                         |
|                   | <u>45,645,000</u>             | <u>C\$0.54</u>                  | <u>2.64</u>   | <u>45,645,000</u>                   | <u>C\$0.54</u>                  |

## 9. EQUITY (Continued)

### b. Share-based Payments (continued)

Share option transactions are summarized as follows:

|  | Number of<br>Options | Weighted Average<br>Exercise Price |
|--|----------------------|------------------------------------|
| <b>Balance, December 31, 2015 and 2014</b> | 53,045,000           | C\$0.71                            |
| Share options granted                      | 200,000              | C\$0.10                            |
| Share options exercised                    | (6,100,000)          | C\$0.10                            |
| Share options expired                      | (1,500,000)          | C\$3.00                            |
| <b>Balance, December 31, 2016</b>          | <b>45,645,000</b>    | <b>C\$0.54</b>                     |

During the year ended December 31, 2016, 3,050,000 share options with an exercise price of C\$0.05 and 3,050,000 share options with an exercise price of C\$0.14 were exercised for proceeds of \$432,242 and a reclassification of \$307,034 from contributed surplus. There was no share option activity in 2015.

Subsequent to December 31, 2016, the Company issued 6,050,000 shares pursuant to the exercise of 6,050,000 stock options for proceeds of \$806,500. The Company also granted 14,825,000 options with a term of 10 years and exercise price of C\$0.17.

## 10. RECOVERIES FROM LITIGATION FUNDING

During the year ended December 31, 2015, the Company received recoveries against its litigation costs of \$1,855,215. The Company did not receive any recoveries during the year ended December 31, 2016.

## 11. RELATED PARTY TRANSACTIONS

### a. Related Party Transactions

The nature of transactions undertaken and the relationships with related parties of the Company are as follows:

|           | Relationship with the Company  | Nature of Transactions  |
|-----------|--|---|
| Company A | An officer/director of the Company and a director of the Company are also an officer and director, respectively, of Company A. | Machinery and facilities rental and provision of general mining-related services. |
| Company B | A director of the Company is also a partner of Company B.  | Provision of legal services.  |
| Company C | A director of the Company is also an officer of Company C.   | Provision of corporate administrative services.                                   |

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses and transactions with related parties have been measured at the price agreed between the parties, which are determined on a cost recovery basis.

|  | Year ended December 31 |          |
|--|------------------------|----------|
|  | 2016                   | 2015     |
| Provision of corporate administrative services | \$95,320               | \$78,201 |

## 11. RELATED PARTY TRANSACTIONS (Continued)

Included in accounts payable and accrued liabilities (Note 4) are amounts due to Company A, B, and C for \$541,382 (December 31, 2015: \$521,960). These amounts are unsecured, due on demand and non-interest bearing.

Included in accounts payable and accrued liabilities (Note 4) is \$750,570 (December 31, 2015: \$642,571) owed to the CEO of the Company and a company owned by the CEO of the Company, and \$150,000 (December 31, 2015: \$150,000) owed to a director of the Company for a non-interest bearing loan with no fixed maturity date. These loans are to be repaid with a contingent success fee upon successful completion of the litigation and final settlement. As at December 31, 2016, litigation success is deemed to be indeterminable and \$nil has been accrued for the contingent success fee.

### b. Compensation of Management and Directors

The remuneration of the directors and key management personnel during the year was as follows:

|                           | 2016      | 2015      |
|---------------------------|-----------|-----------|
| Salary and directors fees | \$390,000 | \$390,000 |
| Share-based compensation  | 12,124    | -         |
|                           | \$402,124 | \$390,000 |

## 12. CAPITAL MANAGEMENT DISCLOSURES

The Company's capital management objectives are to safeguard the Company's ability to support its normal business requirements which mainly consist of its efforts to reach a compensation agreement with the Venezuelan government or an arbitration award before ICSID for the expropriation of its assets in Venezuela as a result of the Nationalization. In the management of capital, the Company includes the components of shareholders' equity (deficiency) excluding non-controlling interests, plus convertible loan, less cash.

As at December 31, 2016, capital, as defined above was a deficit of \$84,638,379 (December 31, 2015 - deficit of \$76,712,652).

The Company manages its capital structure and makes adjustments to it in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage its capital requirements, the Company plans its funding needs in advance to ensure the Company has liquidity to meet its objectives.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

|  | Year ended December 31, |           |
|--|-------------------------|-----------|
|  | 2016                    | 2015      |
| <b>CHANGES IN NON-CASH WORKING CAPITAL ITEMS</b> |                         |           |
| Receivables and prepaids                         | (\$7,477)               | \$301,630 |
| Accounts payable and accrued liabilities         | (316,371)               | 171,686   |
|  | (\$323,848)             | \$473,316 |

## 14. SEGMENTED INFORMATION

The Company's reportable operating segments for the years ended December 31, 2016 and 2015 includes corporate results in Canada and Venezuela as the Company ceased to operate in Venezuela as a result of the Nationalization (Note 1). All of the Company's assets are located in Canada.

## 15. JOINT OPERATION

On July 4, 2008, the Company entered into an agreement (“the Mixed Enterprise Agreement”) with MIBAM to create a mixed enterprise. Pursuant to the Mixed Enterprise Agreement, Minera Venrus C.A. (“Venrus C.A.”), a Venezuelan corporation was incorporated on December 23, 2008, and is 50% owned by the Company and 50% owned by Empresa de Producción Social Minera Nacional, C.A. (a Venezuelan government entity). Up to March 14, 2012, the Company conducted a portion of its business through this joint operation under which the joint operation participants are bound by the articles of incorporation of Venrus C.A. The Company recorded its 50% proportionate share of assets, liabilities, revenues, and operating costs of the joint operation. Due to the Decree on September 16, 2011, the Company lost its mining concessions operated by the joint operation hence the Company lost any control or influence over the management of the operations of Venrus C.A.

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

|                     | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---------------------|------------------------------|----------------------|
| <b>Liabilities</b>  |                              |                      |
| Current liabilities | <u>\$154,114</u>             | <u>\$523,643</u>     |

The decrease in liabilities relates to devaluation of the Venezuelan currency.

## 16. COMMITMENTS AND CONTINGENCIES

### a. Commitments

The Company has no general and administrative commitments as at December 31, 2016.

### b. Contingencies

#### i. *Gold Reserve Lawsuit*

Pursuant to a settlement in 2012, with the Company issued a conditional promissory note in the amount of C\$1,000,000. The promissory note will only become due and payable in the event that the Company is successful in the litigation it has commenced against the Venezuelan government seeking compensation for the Nationalization. The Company considers the litigation to be successful when appropriate financial compensation has been received. The promissory note and any payment due under it shall be subordinate and postponed in right of payment to (a) the rights of the Funder as defined in the Creditors and Shareholders Agreement, and Litigation Funding Agreement, and (b) the rights of the Funder and Freshfields Bruckhaus Deringer US LLP under a Priorities Agreement. No value has been accrued for the promissory note as at December 31, 2016, as litigation success is deemed indeterminable.

#### ii. *Non-compliance*

During June 2010, the Company entered into 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 \$19,600,000 and/or denial of the Company’s ability to generate revenues. No amount has been accrued in these consolidated financial statements in connection with this matter since the outcome cannot be determined at this time. Also, based on the information currently available, an estimate of financial impact cannot be reasonably made.



## 16. COMMITMENTS AND CONTINGENCIES (Continued)

### b. Contingencies (continued)

#### iii. *Litigation Funding Agreement*

Under the terms of the privileged Litigation Funding Agreement, the Company has given certain warranties and covenants to the Funder. In consideration for the provision of arbitration financing, Rusoro has agreed to pay to the Funder a portion of any final settlement of the arbitration claim against the Respondent (the "Funder's Fee"). The Funder's Fee shall only become payable upon a final settlement of the arbitration claim and the value of the Funder's Fee is dependent upon a number of variables including the value of any settlement and the length of time taken to reach a settlement. The agreement also provides that the amount of the Funder's Fee shall not exceed the amount of the aggregate proceeds of the arbitration claim under any circumstances. See Note 10 for details of recoveries received under the Litigation Funding Agreement.

#### iv. *Contingent Success Fees*

In addition to the Litigation Funding Agreement the Company has also provided contingent success fees to select stakeholders, including the Lenders of the Convertible Loan and the board of directors and management of the Company, in consideration for their discounted services or forgiveness of select obligations. The terms, clauses, and priority of the contingent fee agreements are varied, but generally provide each party a contingent success fee based on successful outcome of the litigation and final settlement. Management estimates the aggregate potential exposure related to these contingent success fees will not exceed 15% of the Award. As at December 31, 2016 litigation success is deemed to be indeterminable and \$nil has been accrued.

#### v. *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. As at December 31, 2016 none of the Transaction criteria had been met and \$nil had been paid to the Trust.

In October 2012, the Company entered into a trust agreement and a contribution agreement whereby it has agreed to pay to a trust established for the board of directors and management of the Company a success fee equal to 2% of the proceeds received by the Company in respect of the legal proceedings it has commenced against the Venezuelan Government to obtain compensation for the nationalization of the Company's gold assets in Venezuela.

The trustees (the "Trustees") for the trust 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 board of directors and management of the Company as they deem appropriate. As at December 31, 2016 none of the proceedings criteria had been met and \$nil had been paid to the Trust.

## 16. COMMITMENTS AND CONTINGENCIES (Continued)

### b. Contingencies (continued)

#### iv. Other Matters

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

## 17. FINANCIAL INSTRUMENTS

### a. Financial Assets and Liabilities

The Company's financial instruments consist of the following: cash, receivables, accounts payable and accrued liabilities, a convertible loan, a derivative financial liability ("gold delivery contract") (Note 5) and promissory notes payable.

The carrying amounts of cash, receivables accounts payable and accrued liabilities, and promissory notes payable are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. The gold delivery contract is marked to market at each reporting period based on the current spot price of gold and the number of gold ounces owing to the gold buyer (Note 5), and as such, is a reasonable approximation of the fair value. Management reviewed all significant financial instruments held by the Company and determined that no significant differences between fair value and carrying value existed as at December 31, 2016.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The gold delivery contract, being a derivative financial liability, is measured using Level 2 inputs.

### b. Financial Instrument Risk Exposure

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

#### i. 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 as all of its cash is held with Canadian banks.



## 17. FINANCIAL INSTRUMENTS (Continued)

### b. Financial Instrument Risk Exposure (continued)

#### ii. *Liquidity Risk*

Liquidity risk is the risk that the Company will be unable to meet its obligations associated with financial liabilities as they fall due. The Company manages liquidity risk by monitoring cash and other financial resources available to meet its maturing obligations. The Company currently has a working capital deficiency of \$84,369,289.

#### iii. *Market Risk*

##### (a) *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 majority of the Company's financial instruments, if applicable, have fixed interest rates and therefore management does not believe the Company is exposed to any significant concentration of interest rate risk.

##### (b) *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 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, 2016, the Company had a net monetary asset position of \$38,127 (December 31, 2015 - \$36,140) denominated in Canadian dollars, and a net monetary liability position of \$518,928 (December 31, 2015 - \$1,759,795) denominated in Venezuelan Bolivars.

|                   | <b>December 31, 2016</b>           |                                    |
|-------------------|------------------------------------|------------------------------------|
|                   | <b>25% Increase in the<br/>BsF</b> | <b>25% Decrease in the<br/>BsF</b> |
| Net (loss) profit | (\$129,732)                        | \$103,786                          |
|                   | <b>10% Increase in the<br/>C\$</b> | <b>10% Decrease in the<br/>C\$</b> |
| Net (loss) profit | \$3,813                            | \$(3,466)                          |

## 18. EARNINGS PER SHARE

For purposes of computing diluted earnings per share, convertible debt and stock options that would have an anti-dilutive effect on the calculation of diluted earnings per share are excluded from the calculation. For the year ended December 31, 2016, 45,645,000 (December 31, 2015 – 53,045,000) share options were excluded from the diluted earnings per share calculation.

## 19. INCOME TAXES

The Company incurred \$nil current tax expense and \$nil deferred tax expense in each of the years ending December 31, 2016 and 2015.

Income taxes differ from the amount that would be determined by applying the combined Canadian federal and provincial statutory income tax rate of 26.00% for the year ended December 31, 2016 (2015 – 26%) to income (loss) before income taxes. The differences are the result of:

|   | <b>2016</b>   | 2015         |
|---|---------------|--------------|
| Income (loss) before income taxes                 | (\$8,101,003) | \$73,719,821 |
| Statutory tax rate                                | 26.00%        | 26.00%       |
| Expected income tax expense / (recovery)          | (2,106,261)   | 19,167,153   |
| Rate difference in foreign jurisdictions          | -             | (15,000)     |
| Foreign exchange and other permanent differences  | (1,053,577)   | 5,216,979    |
| Impact of currency devaluation                    | (915,397)     | 40,139,443   |
| Change in unrecognized deductible temporary items | 4,075,235     | (64,508,575) |
| Income tax expense                                | <u>\$-</u>    | <u>\$-</u>   |

As at December 31, 2016, the Company's tax liability includes income taxes payable of \$24,738 (2015 - \$83,894).

During the year ended December 31, 2016 and 2015, the Venezuelan currency devaluation resulted in a significant decrease to the USD value of unrecognized non-capital losses carried forward. The significant components of deferred tax assets not recognized are as follows:

|                                     | <b>2016</b>         | 2015                |
|-------------------------------------|---------------------|---------------------|
| Deferred tax assets not recognized: |                     |                     |
| Non-capital loss carried forward    | \$17,307,653        | \$21,038,850        |
| Property, plant and equipment       | 90,747              | 94,899              |
| Share issuance costs                | -                   | 58,515              |
| Other                               | 40,060              | 321,431             |
|                                     | <u>\$17,438,460</u> | <u>\$21,513,695</u> |

As at December 31, 2016, the Company's non-capital losses relate entirely to Canada and expire between 2017 to 2036.