



**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Financial Statements**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**

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## **RUSORO MINING LTD.**

### **Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three and six months ended June 30, 2012.**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the interim period ended June 30, 2012, have been prepared in accordance with the International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company's management.

The Company's independent auditors, Grant Thornton LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 28th day of August of 2012.

## **CONTENTS**

### **Primary Condensed Interim Consolidated Financial Statements**

Condensed Interim Consolidated Statements of Financial Position  
Condensed Interim Consolidated Statements of Comprehensive Loss  
Condensed Interim Consolidated Statements of Changes in Equity  
Condensed Interim Consolidated Statements of Cash Flows

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### *Corporate Information and Basis of Accounting*

Note 1 Nature of Operations  
Note 2 Basis of Presentation and Going Concern Assumption

#### *Notes to the Condensed Interim Consolidated Statements of Financial Position*

Note 3 Receivables  
Note 4 Inventories  
Note 5 Property, Plant and Equipment  
Note 6 Accounts Payables and Accrued Liabilities  
Note 7 Gold Sale Contract  
Note 8 Convertible Loan  
Note 9 Derivative Financial Liabilities  
Note 10 Equity

#### *Notes to the Condensed Interim Consolidated Statements of Comprehensive Loss*

Note 11 Mining Operating Expenses

#### *Additional Disclosures*

Note 12 Related Party Transactions  
Note 13 Capital Management Disclosures  
Note 14 Supplemental Cash Flow Information  
Note 15 Segmented Information  
Note 16 Joint Venture Interest  
Note 17 Commitments and Contingencies  
Note 18 Financial Instruments  
Note 19 Events After the Reporting Period

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Expressed in thousands of US dollars)**  
**(Unaudited)**



	<b>June 30, 2012</b>	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>\$470</b>	\$3,382
Receivables (Notes 3 and 12)	<b>330</b>	5,554
Inventories (Note 4)	-	6,241
Prepaid expenses and deposits	<b>3,844</b>	11,700
	<b>4,644</b>	26,877
Property, plant and equipment (Note 5)	<b>67</b>	98
	<b>\$4,711</b>	\$26,975
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Notes 6 and 12)	<b>\$87,268</b>	\$79,156
Decommissioning and restoration provision	<b>18,120</b>	18,285
Derivative financial liabilities (Note 7 and 9)	<b>11,201</b>	10,169
Convertible loan (Note 8)	<b>30,000</b>	30,000
Other current provisions	<b>7,071</b>	8,506
	<b>153,660</b>	146,116
<b>SHAREHOLDERS' (DEFICIENCY) EQUITY</b>		
Issued capital (Note 10)	<b>\$736,283</b>	\$736,283
Contributed surplus	<b>65,009</b>	64,182
Deficit	<b>(929,289)</b>	(899,284)
	<b>(127,997)</b>	(98,819)
Non-controlling interests	<b>(20,952)</b>	(20,322)
	<b>(148,949)</b>	(119,141)
	<b>\$4,711</b>	\$26,975

Nature of operations – Note 1  
Basis of presentation and going concern assumption – Note 2  
Commitments and contingencies – Note 17  
Events after the reporting period – Note 19

**APPROVED BY THE BOARD OF DIRECTORS ON AUGUST 28, 2012.**

“Andre Agapov”  
\_\_\_\_\_  
Andre Agapov, Director

“Gordon Keep”  
\_\_\_\_\_  
Gordon Keep, Director

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Comprehensive Loss**  
**(Expressed in thousands of US dollars, except per share amounts)**  
**(Unaudited)**



	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
<b>REVENUES</b>	\$-	\$26,567	\$4,926	\$55,062
<b>COSTS OF MINING OPERATIONS</b>				
Mining operating expenses (Notes 11 and 12)	-	32,099	21,939	62,242
Depreciation and depletion	-	3,426	-	6,619
	-	35,525	21,939	68,861
<b>LOSS FROM MINING OPERATIONS</b>	-	(8,958)	(17,013)	(13,799)
Share-based compensation expense	-	3	827	13
General and administrative (Note 12)	1,987	1,788	4,444	3,547
Foreign exchange (gain) loss	(147)	(1,056)	866	2,681
	1,840	735	6,137	6,241
<b>LOSS FROM OPERATIONS</b>	(1,840)	(9,693)	(23,150)	(20,040)
Interest on convertible loan	844	1,358	1,687	2,862
Interest on Gold Sale Contract (Note 7)	584	-	584	-
(Gain) loss on revaluation of Gold Sale Contract (Note 7)	(425)	-	448	-
Gain on revaluation of derivative financial liabilities	-	(1,891)	-	(4,065)
Loss on repatriation of monetary assets	534	-	534	-
Impairment of mineral properties	-	-	4,019	-
Impairment of property, plant and equipment	-	1,199	-	1,906
Other expenses (income)	-	401	213	(695)
	1,537	1,067	7,485	8
<b>LOSS BEFORE INCOME TAXES</b>	(3,377)	(10,760)	(30,635)	(20,048)
Deferred tax recovery	-	(935)	-	(8,800)
	-	(935)	-	(8,800)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	(\$3,377)	(\$9,825)	(\$30,635)	(\$11,248)
<b>Attributable to:</b>				
Non-controlling interests	(42)	(108)	(630)	(246)
Equity shareholders of the Company	(3,335)	(9,717)	(30,005)	(11,002)
	(\$3,377)	(\$9,825)	(\$30,635)	(\$11,248)
<b>LOSS PER SHARE</b>				
Basic and diluted	(\$0.01)	(\$0.02)	(\$0.06)	(\$0.02)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
Basic	530,121	530,121	530,121	530,106
Diluted	530,121	532,469	530,121	533,603

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
**(Expressed in thousands of US dollars)**  
**(Unaudited)**



	Issued capital		Equity component of convertible loan	Contributed surplus	Deficit	Non-controlling interests	Equity
	Shares	Amount					
<b>Balance, December 31, 2010</b>	530,021	\$736,238	\$1,223	\$62,970	(\$141,490)	\$2,021	\$660,962
Extinguishment of convertible option to share (Note 12)	-	-	(1,223)	1,223	-	-	-
Share-based compensation expense (Note 14(c))	-	-	-	13	-	-	13
Shares issued pursuant to exercise of share options (Note 14(b))	100	20	-	-	-	-	20
Fair value of share options exercised (Note 14(b))	-	25	-	(25)	-	-	-
Comprehensive loss	-	-	-	-	(11,002)	(246)	(11,248)
<b>Balance, June 30, 2011</b>	<u>530,121</u>	<u>\$736,283</u>	<u>\$-</u>	<u>\$64,181</u>	<u>(\$152,492)</u>	<u>\$1,775</u>	<u>\$649,747</u>
<b>Balance, December 31, 2011</b>	530,121	\$736,283	\$-	\$64,182	(\$899,284)	(\$20,322)	(\$119,141)
Share-based compensation expense (Note 10(c))	-	-	-	827	-	-	827
Comprehensive loss	-	-	-	-	(30,005)	(630)	(30,635)
<b>Balance, June 30, 2012</b>	<u>530,121</u>	<u>\$736,283</u>	<u>\$-</u>	<u>\$65,009</u>	<u>(\$929,289)</u>	<u>(\$20,952)</u>	<u>(\$148,949)</u>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**RUSORO MINING LTD.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Expressed in thousands of US dollars)**  
**(Unaudited)**



	<b>Six Months Ended June 30,</b>	
<b>CASH DERIVED FROM (USED IN)</b>	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(\$30,635)	(\$11,248)
Adjustments for items not involving cash:		
Depreciation and depletion	31	6,702
Share-based compensation expense	827	13
Accretion of interest on convertible loan	-	1,369
Unrealized foreign exchange loss	-	484
Increase in allowance for doubtful recovery of prepaid expenses and deposits	6,287	-
Increase in allowance for doubtful recovery of receivables	1,413	-
Write-off of inventories	2,437	5,362
Impairment of mineral properties and property, plant and equipment	4,019	1,906
Interest on Gold Sale Contract	584	-
Accretion of decommissioning and restoration provision	-	1,084
Gain on revaluation of derivative financial liabilities	-	(4,065)
Loss on revaluation of gold sale contract	448	-
Deferred tax recovery	-	(8,800)
	(14,589)	(7,193)
Receivables non-current	-	2,778
Deferred tax assets	-	(15)
Accrual for employee termination benefits non-current	-	339
Changes in non-cash working capital items (Note 14)	14,155	16,479
	(434)	12,388
<b>INVESTING ACTIVITIES</b>		
Expenditures on property, plant and equipment	-	(6,104)
Expenditures on mineral properties	(13,218)	(15,448)
Proceeds from sale of pre-commercial gold production of mineral properties	10,740	5,539
	(2,478)	(16,013)
<b>FINANCING ACTIVITIES</b>		
Cash received from exercise of share options	-	20
	-	20
<b>DECREASE IN CASH</b>	(2,912)	(3,605)
Cash – beginning of period	3,382	4,054
<b>Cash – end of period</b>	\$470	\$449

Supplemental cash flow information – Note 14

See accompanying notes to the unaudited condensed interim consolidated financial statements.

## **1. NATURE OF OPERATIONS**

Rusoro Mining Ltd. ("the Company") was incorporated under the laws of the Province of British Columbia on March 1, 2000. The registered office of the Company's corporate headquarters is located at 520-355 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 in Venezuela.

The Company received mining concessions in Venezuela for the exploration, development and exploitation of alluvial and vein gold. The concessions were granted by the Venezuelan Ministry of Mines and Basic Industries ("MIBAM") or by Corporacion Venezolana de Guayana ("CVG"), maturing in 20 to 25 years from initial grant date, with some concessions extendable for two additional subsequent periods of 10 years each. 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 16). The Company also held various exploration projects and one development project in Venezuela called San Rafael El Placer.

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 Decree provided for a 90-day period starting September 16, 2011 for the government of Venezuela and the Company to negotiate the terms and conditions of the migration of its 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.

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 becoming the new operator and employer.

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. This request was filed on July 17, 2012 (Note 19). 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.

On March 14, 2012, as a result of the Nationalization, the Company wrote-off the remaining balances of mineral properties and inventories for \$4,019 and \$2,437, respectively, and starting March 14, 2012 the carrying values of property, plant and equipment, mineral properties and inventories are nil (with the exception of certain office and computer equipment at the Company's head office with a carrying value of \$67 at June 30, 2012 – Note 5). As at June 30, 2012 the carrying values of receivables of \$330 and prepaid expenses and deposits of \$3,844 are net of allowances for doubtful recovery of \$16,971 and \$7,099, respectively. A significant portion of these allowances was recorded as a result of the Nationalization. The Company's cash balance of \$470 as at June 30, 2012 is held in bank accounts in which the Company retained full control after the Nationalization.



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

On June 15, 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 has 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") on a non-recourse basis. Rusoro will continue to have complete control over the conduct of the international arbitration proceedings, insofar as the proceedings relate to the Company's claims, and continues 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.

Pursuant to the Litigation Funding Agreement, on June 14, 2012 the Company entered into a Creditors and Shareholders Agreement (the "CSA") with significant equityholders 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.

The Litigation Funding Agreement provides contingent consideration to the Funder and other select parties as described in Note 17 and resulted in an amendment to the terms of the Gold Sale Contract adding an annual interest rate of 11% (Note 7).

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

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

The unaudited condensed interim consolidated financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the fiscal year ended December 31, 2011. Hence, these interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2011, which include information necessary or useful to understanding the Corporation's business and financial statement presentation. In particular, the Corporation's significant accounting policies were presented in the audited consolidated financial statements for the fiscal year ended December 31, 2011, and have been consistently applied in the preparation of these interim financial statements. The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 28, 2012, the date the Board of Directors approved the financial statements.

### **b) Going Concern Assumption**

These interim financial statements have been prepared based upon accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

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)**

On March 14, 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) The Company continues to negotiate 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;
- 2) On June 15, 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 the Republic of Venezuela (the "Respondent") on a non-recourse basis;
- 3) Related to the Litigation Funding Agreement, on June 14, 2012 the Company entered into the CSA with significant equityholders 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; and
- 4) Per Note 19, on July 17, 2012, the Company filed a Request for Arbitration before the Additional Facility of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") against the Bolivarian Republic of Venezuela ("Venezuela") pursuant to the Agreement between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments (the "Treaty").

Management also intends 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, or that they will be available on terms and timely basis that are acceptable to the Company. Accordingly, these interim 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.

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. As at June 30, 2012, the Company had a net working capital deficiency (current assets minus current liabilities) of \$149,016. The Company did not perform the repayment of the convertible loan for \$30,000 (included in current liabilities) when it became due in June 2011 and on June 14, 2012 the convertible loan lenders signed the CSA which granted a standstill period, subject to various clauses (Note 8).

### **c) Basis of Consolidation**

These interim financial statements include the financial statements of the Company, its subsidiaries, and jointly controlled entities. Intercompany balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the interim financial statements.

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

The principal subsidiaries, jointly controlled entities, 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%	Proportionately Consolidated
Minera Rusoro Venezolana C.A.	Venezuela	50%	Proportionately Consolidated
El Callao Gold Mining Company de Venezuela S.C.S.	Venezuela	50%	Proportionately Consolidated
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 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.

## 3. RECEIVABLES

	June 30, 2012	December 31, 2011
<b>Non-financial assets</b>		
VAT receivable (a)	\$-	\$3,283
	-	3,283
<b>Financial assets</b>		
Trade receivable	-	808
Other receivables (b)	330	1,463
	330	2,271
<b>Total current receivables</b>	<b>\$330</b>	<b>\$5,554</b>

a) VAT receivable relates to value added tax ("VAT") paid in Venezuela that is recoverable from the requisite authorities. As at June 30, 2012, VAT receivable includes an allowance for doubtful recovery of \$14,562 (December 31, 2011: \$13,845)

b) Other receivables includes an allowance for doubtful collection of \$2,409 (December 31, 2011: \$985).

#### 4. INVENTORIES

	<b>June 30, 2012</b>	December 31, 2011
Finished gold	\$-	\$1,894
Gold in process	-	1,041
Gold in stockpile	-	3,306
	<u>\$-</u>	<u>\$6,241</u>

Finished gold inventories, gold in process inventories and stockpile inventories were written-off on March 14, 2012 as a result of the Nationalization (Note 1). As at December 31, 2011, all inventories were recorded at the lower of average cost and net realizable value.

#### 5. PROPERTY, PLANT AND EQUIPMENT

	<b>Mining Properties</b>	<b>Mining Plant and Equipment</b>	<b>Office and Computer Equipment</b>	<b>Total</b>
<b>Cost</b>				
<b>Balance, December 31, 2011</b>	\$14,398	\$39,142	\$381	\$53,921
Disposal (a)	(14,398)	(39,142)	-	(53,540)
<b>Balance, June 30, 2012</b>	<u>-</u>	<u>-</u>	<u>381</u>	<u>381</u>
<b>Accumulated depreciation, depletion and impairment</b>				
<b>Balance, December 31, 2011</b>	14,398	39,142	283	53,823
Depreciation and depletion	-	-	31	31
Disposal (a)	(14,398)	(39,142)	-	(53,540)
<b>Balance, June 30, 2012</b>	<u>-</u>	<u>-</u>	<u>314</u>	<u>314</u>
<b>Carrying Amount</b>				
<b>Balance, June 30, 2012</b>	<u>\$-</u>	<u>\$-</u>	<u>\$67</u>	<u>\$67</u>

- a) Due to their expropriation by the Venezuelan Government on March 14, 2012 as a result of the Nationalization (Note 1).

## 5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Mining Properties	Mining Plant and Equipment	Office and Computer Equipment	Construction in Progress	Total
<b>Cost</b>					
<b>Balance, December 31, 2010</b>	\$564,597	\$99,442	\$381	\$5,710	\$670,130
Additions	14,912	2,989	-	3,064	20,965
Proceeds from the sale of pre-commercial gold production (b)	(6,910)	-	-	-	(6,910)
Write-down (c)	(558,201)	(63,289)	-	(8,774)	(630,264)
<b>Balance, December 31, 2011</b>	<u>14,398</u>	<u>39,142</u>	<u>381</u>	<u>-</u>	<u>53,921</u>
<b>Accumulated depreciation, depletion and impairment</b>					
<b>Balance, December 31, 2010</b>	12,442	28,675	221	-	41,338
Depreciation and depletion	1,956	10,467	62	-	12,485
<b>Balance, December 31, 2011</b>	<u>14,398</u>	<u>39,142</u>	<u>283</u>	<u>-</u>	<u>53,823</u>
<b>Carrying Amount</b>					
<b>Balance, December 31, 2011</b>	<u>\$-</u>	<u>\$-</u>	<u>\$98</u>	<u>\$-</u>	<u>\$98</u>

- b) Incidental proceeds of \$6,910 generated through the sale of gold extracted from mining properties in pre-commercial production.
- c) As at December 31, 2011, due to the expropriation on March 14, 2012 of all of the Company's Venezuelan mining concessions including property, plant, and equipment and mineral properties as a result of the Nationalization (Note 1). Management's write down was based on estimates of value-in-use of the written down assets.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012	December 31, 2011
<b>Financial liabilities (a)</b>		
Accounts payable	\$28,451	\$34,111
Accrued liabilities	38,125	29,103
Accrual for employee termination benefits	15,890	12,881
Accrual for interest on convertible loan (Note 8)	4,336	2,650
Due to related parties (Note 12)	466	411
	<u>\$87,268</u>	<u>\$79,156</u>

- a) No account payable or accrued liability identified as a non-financial liability.

## 7. GOLD SALE CONTRACT

### Derivative Financial Liability

In 2010 the Company received \$6,973 from a gold buyer, Vicolven Enterprises Inc. (“Vicolven”), which operates from Curacao, Netherlands Antilles. This payment represented full payment for the future delivery of six thousand five hundred ounces of finished gold and the commitment to issue 12.4 million share-purchase warrants (Note 9). The Company was originally required to deliver the finished gold prior to January 11, 2011. During the year ended December 31, 2010, the transaction was amended for future delivery of six thousand five hundred ounces of finished gold to occur over the six months ended June 2011. In exchange, the Company committed to deliver an additional eight hundred forty two ounces of finished gold in July 2011. 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 seven hundred ounces (as permitted by Vicolven) for a total of \$711. In relation to the Company’s commitment to issuing 12.4 million share-purchase warrants (Note 9), the \$330 value associated with these committed share-purchase warrants has been deducted from the \$6,973, resulting in a net amount of \$6,643.

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, 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 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 be ultimately be payable in cash on the same terms as the original balance. Per the agreement, the interest payable is enacted retroactively to January 1, 2012.

Since the contract will be paid in cash in lieu of gold, and no longer qualifies for own use exemption, it has been classified as a derivative financial liability on the statement of financial position. Previously, up to September 20, 2011, it was classified as deferred revenue. As of June 30, 2012, 7,007 ounces of finished gold were still outstanding and valued at fair market value using the spot price of gold on June 30, 2012 of \$1,599 per ounce. Included in this amount is the principal amount of 6,642 gold ounces plus accrued interest of 365 gold ounces for the period January 1, 2012 through June 30, 2012.

	<b>June 30, 2012</b>	December 31, 2011
<b>Balance, beginning of year</b>	\$10,169	\$-
Value of undelivered gold ounces transferred from deferred revenue	-	5,932
Change in fair value	448	4,237
Fair value of interest expense	584	-
<b>Balance, end of period / year</b>	<b>\$11,201</b>	<b>\$10,169</b>

## **8. CONVERTIBLE LOAN**

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

For accounting purposes, the Loan contained both a liability component and an equity component, being the Lenders' conversion option to shares, which were separately presented on the consolidated statement of financial position. The Company allocated the original \$80,000 principal of the Loan to the liability and equity components by establishing the fair value of the liability component at the date of issue and then allocating the remaining balance of the net proceeds to the equity component.

The fair value of the liability component was determined by discounting the stream of future payments of interest and principal amounts at the estimated prevailing market rate at the date of issuance of 15% for a debt instrument of similar maturity and credit quality but without any share conversion option for the Lenders. Including the impact of the costs of issuance, applying the effective interest method, the liability component of the Loan bore an effective annual interest rate of 18.5%.

On November 12, 2009, the Company purchased \$20,000 of the principal amount of the Loan and related accrued interest of \$847 for \$17,754, including professional fees. The Company recorded a gain on repurchase of convertible loan in profit or loss of \$2,206.

This gain was calculated as the difference between the amortized cost and the fair value of the liability component of the portion of the Loan which was repurchased. The \$1,577 equity component relating to the 25% principal portion of the Loan which was repurchased was transferred to deficit in the consolidated statement of financial position. The \$60,000 remaining principal portion of the Loan was due in June 2010.

On June 10, 2010, the original due date of the Loan, the Company made a \$17,000 principal payment and restructured the remaining \$43,000 principal portion of the Loan. The restructured terms required the Company to make a second principal payment of \$13,000 including accrued interest at a contractual rate of 10% per annum on or before July 10, 2010 (paid on June 22, 2010) and a final principal payment of \$30,000 ("the Reduced Principal") on or before June 10, 2011. The Reduced Principal bore interest at a contractual rate of 10% per annum (effective annual interest rate of 21.1% including costs of restructuring) and interest was payable quarterly. Based on the restructured terms, the conversion price of the Reduced Principal was adjusted to \$0.40 (subject to adjustment depending on future equity financings and other transactions entered into by the Company), the Company issued 30 million warrants (Note 9) to the Lenders and the Company could repay the Loan at any time by repaying the outstanding principal in full, plus interest accrued to the repayment date. All other terms of the Loan remain unchanged.

Loan restructuring costs include the \$873 fair value of the 30 million warrants issued (Note 9) and other cash costs of \$842. As a result of the restructuring, the carrying value of the equity component of the convertible loan of \$4,733 was eliminated against contributed surplus to recognize the modification of the Loan. To recognize the modified fair value of the conversion option to shares of the convertible loan after restructuring, the liability component of the Loan was reduced by \$1,223, with a corresponding increase in the equity component of the convertible loan.

## 8. CONVERTIBLE LOAN (Continued)

As at June 7, 2011, the conversion option of the Loan expired, and the related balance of \$1,223, as carried as an equity component of the convertible loan was extinguished, with a corresponding increase to contributed surplus.

On June 10, 2011, the Company defaulted of the Loan, as the required repayments of \$30,000 of principal and \$750 of accrued interest were not made on that date. These defaulted, scheduled repayments, in addition to interest accrued on the total balance owing at the contractual rate of 11% per annum, were still outstanding as at June 30, 2012.

On June 14, 2012, the Lenders signed the CSA whereby they 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% (See Note 17 for more details).

	<b>June 30, 2012</b>	December 31, 2011
<b>Equity component, beginning of year</b>	\$-	\$1,223
Extinguishment of conversion option to shares	-	(1,223)
<b>Equity component, end of period / year</b>	<b>\$-</b>	<b>\$-</b>
<b>Liability component, beginning of year</b>	\$ 30,000	\$ 28,631
Accretion of interest	-	1,369
<b>Liability component, end of period / year</b>	<b>\$30,000</b>	<b>\$30,000</b>

As at June 30, 2012, the loan was still in default and outstanding and carried an amount owing of \$4,336 in accrued interest. \$Nil contingent success fee was accrued as litigation success is deemed to be indeterminable.

## 9. DERIVATIVE FINANCIAL LIABILITIES

The share purchase warrants issued with foreign currency exercise prices (all being denominated in the Canadian dollar (C\$)) as at June 30, 2012 and December 31, 2011 were as follows:

	<b>Warrants (000)</b>	<b>Weighted Average Exercise Price (C\$)</b>	<b>Financial Liability</b>
<b>Balance, December 31, 2010</b>	145,322	3.03	\$4,001
Reversal of warrants previously committed	(12,355)	(0.40)	-
Warrants issued	12,355	0.40	-
Warrants expired	(12,355)	(0.40)	-
Change in fair value	-	-	(4,001)
<b>Balance, December 31, 2011</b>	132,967	3.03	\$-
Warrants expired	(9,217)	(5.25)	-
<b>Balance, June 30, 2012</b>	<b>123,750</b>	<b>3.13</b>	<b>\$-</b>

There was no change in the fair value of the warrants during the three and six month periods ended June 30, 2012.

On March 17, 2011, the Company issued 12.4 million share-purchase warrants to a gold buyer (Note 7). These share purchase warrants were committed to the gold buyer during the year ended December 31, 2010, as an inducement related to an advance for the delivery of finished gold ounces.



## 9. DERIVATIVE FINANCIAL LIABILITIES (Continued)

On March 4, 2012, 9.2 million share-purchase warrants with an exercise price of C\$5.25 expired unexercised.

For details on share purchase warrants with foreign currency exercise prices please see Note 10d.

The fair value of the extended share-purchase warrants was estimated to be \$Nil using the Black-Scholes Option-Pricing model with the following weighted average assumptions:

<b>Assumptions</b>	<b>2011</b>
Dividend yield	0%
Annualized volatility	67%
Risk-free interest rate	0.76%
Expected life (years)	1
Weighted average fair value per share purchase warrant	\$0.00

The annualized volatility assumption is based on the volatility of the Company's historical stock price over a time period equal to the expected life of the warrants. No warrants were issued or extended during the year ended December 31, 2011.

## 10. EQUITY

### a. Authorized Share Capital of the Company

Unlimited number of common shares without par value.

### b. Issued Capital

	<b>Number of Shares (000)</b>	<b>Amount</b>
<b>Balance, January 1, 2010</b>	530,021	\$736,238
Shares issued pursuant to exercise of share options	100	20
Fair value of share options exercised	-	25
<b>Balance, December 31, 2011</b>	<u>530,121</u>	<u>\$736,283</u>
<b>Balance, June 30, 2012</b>	<u>530,121</u>	<u>\$736,283</u>

### c. Share-based Payments

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

## 10. EQUITY (Continued)

The following share options were outstanding and exercisable at June 30, 2012:

Exercise Prices	Options Outstanding and Exercisable		
	Number of Options Outstanding (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
C\$0.14	11,000	C\$0.14	4.58
C\$0.20	7,795	C\$0.20	7.15
C\$0.60	13,200	C\$0.60	6.82
C\$1.31	12,525	C\$1.31	5.98
C\$2.12 – C\$2.30	4,900	C\$2.22	5.27
C\$3.00	1,500	C\$3.00	4.36
	<u>50,920</u>	<u>\$0.82</u>	<u>5.96</u>

Share option transactions are summarized as follows:

	Number of Options (000)	Weighted Average Exercise Price
<b>Outstanding, January 1, 2011</b>	49,532	\$1.05
Issued	-	-
Forfeited	(7,092)	1.32
Exercised	(100)	0.20
<b>Outstanding, December 31, 2011</b>	42,340	\$0.99
Issued	11,000	0.14
Forfeited	(2,420)	0.55
<b>Outstanding, June 30, 2012</b>	<u>50,920</u>	<u>\$0.82</u>

On January 19, 2012, the Board of Directors of the Company approved the granting of 11 million fully vested stock options to certain directors, officers, and management of the Company. These options have an exercise price of C\$0.14 per share and a 5-year life from the date of grant.

The fair value of the share options granted was estimated on the date of grant using the Black-Scholes Option-Pricing model with the following weighted average assumptions:

Assumptions	2012
Dividend yield	0%
Annualized volatility	67.7%
Risk-free interest rate	1.31%
Expected life (years)	5
Weighted average fair value per option	\$0.08

The annualized volatility assumption is based on the volatility of the Company's historical stock price over a time period equal to the expected life of the options. No share options were granted during the year ended December 31, 2011.

## 10. EQUITY (Continued)

### d. Share Purchase Warrants Issued

The following share purchase warrants which are all denominated in a foreign currency (Note 9), were outstanding as at June 30, 2012:

Number of Share Purchase Warrants Outstanding and Exercisable (000)	Exercise Price	Expiry Date
30,000	C\$0.40	January 10, 2013
93,750	C\$4.00	November 29, 2012
123,750		

On January 10, 2012, the Company extended the expiration date of the 30 million share purchase warrants (Note 9), with an exercise price of C\$0.40 per share, from January 10, 2012, to the new expiry date of January 10, 2013. These warrants had been issued on August 13, 2010 to the Lenders as a result of restructuring the Loan (Note 8). All other terms of the warrants remained unchanged, including their exercise price.

On March 4, 2012, 9.2 million share-purchase warrants with an exercise price of C\$5.25 expired unexercised.

## 11. MINING OPERATING EXPENSES

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Raw materials	\$-	\$2,376	\$811	\$4,939
Salaries and employee benefits	-	9,988	4,297	21,296
Administrative expenses	-	3,681	779	5,947
Royalties and production taxes	-	1,915	297	3,851
Rental of machinery	-	7,581	1,184	12,480
Consulting fees	-	1,706	267	2,402
Tools and spare parts	-	1,948	324	3,234
Change in inventories	-	(282)	3,804	3,302
Write-off / Impairment of inventories	-	4,161	2,437	5,362
Impairment of prepaid expenses and deposits and receivables	-	-	7,700	-
Other	-	(975)	39	(571)
	\$-	\$32,099	\$21,939	\$62,242

## 12. RELATED PARTY TRANSACTIONS

### a. Subsidiaries

As at June 30, 2012, the Company's subsidiaries were as follows:

<b>Name of Subsidiary</b>	<b>Location</b>	<b>Ownership</b>
Asterville International Corporation AVV	Aruba	100%
Balandria Limited	British Virgin Islands	100%
Carisma Corporation AVV	Aruba	100%
Cerenex Financial AVV	Aruba	100%
Corporacion 80.000 C.A.	Venezuela	100%
Corporacion Aurifera de El Callao C.A.	Venezuela	100%
Corporacion Cabello Galvez C.A.	Venezuela	100%
Corporacion Minera 11-90 C.A.	Venezuela	100%
Corporacion Minera 410879 C.A.	Venezuela	100%
Corporacion Minera 6560433 C.A.	Venezuela	100%
Corporacion Minera Choco 9 C.A.	Venezuela	100%
Corporacion Minera ECH1 C.A.	Venezuela	100%
Corporacion Minera ECH2 C.A.	Venezuela	100%
Corporacion Minera ECH3 C.A.	Venezuela	100%
Corporacion Minera ECH4 C.A.	Venezuela	100%
Corporacion Minera ECH5 C.A.	Venezuela	100%
Corporacion Minera Sor Teresita C.A.	Venezuela	100%
Cradock United Inc.	Panama	100%
Dotley Financial Corp.	Panama	100%
Drake-Bering Holdings BV	Netherlands	100%
El Callao Gold Mining Company	Delaware	100%
El Callao Gold Mining Company de Venezuela S.C.S.	Venezuela	50%
El Callao Holdings AVV	Aruba	100%
El Callao Holdings C.A.	Venezuela	100%
General Mining de Guayana C.A.	Venezuela	100%
Helvetia Corporation AVV	Aruba	100%
International Gold & Silver BV	Netherlands	100%
Inversiones Anseg C.A.	Venezuela	100%
Inversiones Fitzcarraldo C.A.	Venezuela	100%
Inversiones Goldwana C.A.	Venezuela	100%
Inversiones Mineras El Dorado SA	Panama	100%
Inversiones Vipago C.A.	Venezuela	100%
Inversiones Yuruan C.A.	Venezuela	100%
Inversora Maryate C.A.	Venezuela	100%
Inversora Tecnica de Minas C.A.	Venezuela	100%
Krysos Mining S.A.	Venezuela	100%
Lamin Laboreos Mineros C.A.	Venezuela	100%
Mena Resources Inc.	Canada	100%
Minera Rusoro Venezolana C.A.	Venezuela	50%
Minera Tapaya C.A.	Venezuela	100%
Minera Venrus C.A.	Venezuela	50%
Mineral Ecological Technology de Venezuela MET C.A.	Venezuela	100%
Mineria MS C.A.	Venezuela	100%
Minoro Aruba AVV	Aruba	100%

## 12. RELATED PARTY TRANSACTIONS (Continued)

<b>Name of Subsidiary</b>	<b>Location</b>	<b>Ownership</b>
Miniplata Aruba AVV	Aruba	100%
Promotora Minera de Guayana, P.M.G., S.A.	Venezuela	95%
Promotora Minera de Venezuela S.A.	Venezuela	100%
Prospecciones Mineras Prominca C.A.	Venezuela	100%
Proyectos Mineros del Sur, (PROMINSUR), C.A.	Venezuela	100%
Racal Investments AVV	Aruba	100%
Representaciones Carson Gold Int C.A.	Venezuela	100%
Right Angle Corporation AVV	Aruba	100%
Rusoro MH Acquisition	Canada	100%
Rusoro Mining de Venezuela C.A.	Venezuela	100%
Rusoro Mining (Panama) Inc.	Panama	100%
Tombstone Aruba AVV	Aruba	100%
Tombstone Exploracion de Mexico	Mexico	100%
Tombstone Nevada Inc.	Nevada	100%
Triway Corporation AVV	Aruba	100%
Valet Corporation AVVV	Aruba	100%
Venezuela Holdings (BVI) Ltd	British Virgin Islands	100%
Vicenza Corporation AVV	Aruba	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company (including its subsidiaries) and other related parties are disclosed below.

### b. Related Party Transactions

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

	<b>Relationship with the Company</b>	<b>Nature of Transactions</b>
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.

## 12. RELATED PARTY TRANSACTIONS (Continued)

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 is determined on a cost recovery basis.

	Notes	Three Months Ended		Six Months Ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Machinery rental and provision of general mining-related services	(a)	\$-	\$47	\$-	\$125
Facilities rental	(b)	-	28	-	55
Provision of legal services	(c)	49	78	63	237
		<u>\$49</u>	<u>\$153</u>	<u>\$63</u>	<u>\$417</u>

- a) Included in mining operating expenses for the three and six months ended June 30, 2012 is \$Nil (three and six months ended June 30, 2011: \$47 and \$107, respectively) and included in amounts capitalized as mineral properties is \$nil for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011: \$18) related to rental of machinery from, and the provision of general mining-related services by, Company A.
- b) Included in general and administrative expenses for the three and six months ended June 30, 2012 is \$Nil (three and six months ended June 30, 2011: \$28 and \$55, respectively) related to the rental of the Company's Caracas, Venezuela office from Company A.
- c) Included in general and administrative expenses are professional fees paid to Company B for \$Nil for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011: \$100 and \$237, respectively) in relation to the fees associated with expanding production facilities, and \$49 and \$63 for the three and six months ended June 30, 2012, respectively (three and six months ended June 30, 2011: \$22 credit and \$Nil, respectively) in relation to other legal matters.

Included in accounts payable and accrued liabilities (Note 6) are amounts due to Company A and B for \$466 (December 31, 2011: \$411). These amounts are unsecured, due on demand and non-interest bearing.

## 13. 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 a successful arbitration award granted by 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, its convertible loan, as well as the cash.

Capital, as defined above, is summarized as follows:

	June 30, 2012	December 31, 2011
Shareholders' deficiency	(\$127,997)	(\$98,819)
Convertible loan	30,000	30,000
	<u>(97,997)</u>	<u>(68,819)</u>
Less: Cash	(470)	(3,382)
	<u>(\$98,467)</u>	<u>(\$72,201)</u>

### 13. CAPITAL MANAGEMENT DISCLOSURES (Continued)

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.

As discussed in Note1, the company entered into a Litigation Funding Agreement on June 14, 2012 to provide a reasonable amount of litigation capital and corporate working capital required for a potential multi-year international arbitration with the Venezuelan government.

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

	<b>Six months ended</b>	
	<b>June 30, 2012</b>	June 30, 2011
<b>CHANGES IN NON-CASH WORKING CAPITAL ITEMS</b>		
Receivables	\$3,082	\$62
Inventories	3,804	(235)
Prepaid expenses and deposits	757	(3,761)
Accounts payable and accrued liabilities	8,112	21,107
Decommissioning and restoration provision	(165)	-
Other current provision	(1,435)	17
Deferred revenue	-	(711)
	<b>\$14,155</b>	<b>\$16,479</b>
<b>CHANGES IN NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Accounts payable and accrued liabilities – Expenditures on mineral properties	-	(\$1,741)
Accounts payable and accrued liabilities – Expenditures on property, plant and equipment	-	\$2,691
Depreciation capitalized – Mineral properties	-	\$483
Loss capitalized in mineral properties for increase in allowance for doubtful recovery of receivables and prepaid expenses and deposits	\$1,541	-
<b>OPERATING ACTIVITIES INCLUDED THE FOLLOWING CASH PAYMENTS</b>		
Interest paid	-	\$750

## 15. SEGMENTED INFORMATION

The Company's reportable operating segments are the operating Choco Mine and Isidora Mine, the aggregate of mineral properties, which are comprised of exploration and evaluation assets as well as development stage properties, and Corporate. All operating segment assets, liabilities, revenue and expenses relate to Venezuela except for Corporate operating segment assets and expenses, which relate to Canada. The following amounts are presented net of intercompany transactions where applicable.

Three months ended June 30, 2012

	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
Revenues	\$-	\$-	\$-	\$-	\$-
Mining operating expenses	-	-	-	-	-
Share-based compensation expense	-	-	-	-	-
General and administrative	-	-	-	(1,987)	(1,987)
Foreign exchange (loss) gain	-	-	-	147	147
Interest on convertible loan	-	-	-	(844)	(844)
Interest on gold sale contract	-	-	-	(584)	(584)
Loss on revaluation of gold sale contract	-	-	-	425	425
Loss on repatriation of monetary assets	-	-	-	(534)	(534)
Other expenses	-	-	-	-	-
Net and Comprehensive Loss	\$-	\$-	\$-	(\$3,377)	(\$3,377)
Capital asset expenditures	\$-	\$-	\$-	\$-	\$-



## 15. SEGMENTED INFORMATION (Continued)

Three months ended June 30, 2011

	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
Revenues (1)	\$22,949	\$3,618	\$-	\$-	\$26,567
Mining operating expenses	(25,728)	(6,371)	-	-	(32,099)
Depreciation and depletion	(3,560)	134	-	-	(3,426)
Share-based compensation expense	-	-	-	(3)	(3)
General and administrative	(7)	-	(228)	(1,553)	(1,788)
Foreign exchange (loss) gain	2,230	(838)	(218)	(118)	1,056
Interest on convertible loan	-	-	-	(1,358)	(1,358)
Gain on revaluation of derivative financial liabilities	-	-	-	1,891	1,891
Impairment of property, plant and equipment	-	(1,199)	-	-	(1,199)
Other income (expenses)	-	-	(401)	-	(401)
Deferred tax recovery	1,456	(521)	-	-	935
Net and Comprehensive Loss	(\$2,660)	(\$5,177)	(\$847)	(\$1,141)	(\$9,825)
Capital asset expenditures	\$26	\$-	\$10,821	\$-	\$10,847

(1) During the three months ended June 30, 2011 all revenue was generated in Venezuela.

## 15. SEGMENTED INFORMATION (Continued)

Six months ended June 30, 2012

	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
Revenues (1)	\$3,578	\$1,348	\$-	\$-	\$4,926
Mining operating expenses	(12,742)	(9,197)	-	-	(21,939)
Share-based compensation expense	-	-	-	(827)	(827)
General and administrative	-	-	(1,695)	(2,749)	(4,444)
Foreign exchange (loss) gain	(1,445)	302	196	81	(866)
Interest on convertible debt	-	-	-	(1,687)	(1,687)
Interest on gold sale contract	-	-	-	(584)	(584)
Loss on revaluation of gold sale contract	-	-	-	(448)	(448)
Loss on repatriation of monetary assets	-	-	-	(534)	(534)
Impairment loss	-	-	(4,019)	-	(4,019)
Other expenses	-	-	(213)	-	(213)
Net and Comprehensive Loss	(\$10,609)	(\$7,547)	(\$5,731)	(\$6,748)	(\$30,635)
Capital asset expenditures (2)	\$-	\$-	\$13,218	\$-	\$13,218

- (1) During the six months ended June 30, 2012 all revenue was generated in Venezuela.  
(2) Does not include a non-cash loss for \$1,541 capitalized in mineral properties – Note 14.

## 15. SEGMENTED INFORMATION (Continued)

Six months ended June 30, 2011

	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
Revenues (1)	\$45,319	\$9,743	\$-	\$-	\$55,062
Mining operating expenses	(50,340)	(11,902)	-	-	(62,242)
Depreciation and depletion	(6,531)	(88)	-	-	(6,619)
Share-based compensation expense	-	-	-	(13)	(13)
General and administrative	(7)	-	(440)	(3,100)	(3,547)
Foreign exchange (loss) gain	(1,557)	(661)	(295)	(168)	(2,681)
Interest on convertible loan	-	-	-	(2,862)	(2,862)
Gain on revaluation of derivative financial liabilities	-	-	-	4,065	4,065
Impairment of property, plant and equipment	-	(1,906)	-	-	(1,906)
Other income (expenses)	871	436	(612)	-	695
Deferred tax recovery	8,785	15	-	-	8,800
Net and Comprehensive Loss	<u>(\$3,460)</u>	<u>(\$4,363)</u>	<u>(\$1,347)</u>	<u>(\$2,078)</u>	<u>(\$11,248)</u>
Capital asset expenditures	<u>\$2,575</u>	<u>\$707</u>	<u>\$18,270</u>	<u>\$-</u>	<u>\$21,552</u>

(1) During the six months ended June 30, 2011 all revenue was generated in Venezuela.

## 15. SEGMENTED INFORMATION (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Customer A	\$-	\$15,886	\$4,926	\$29,270
Customer B	-	10,681	-	25,792
	<u>\$-</u>	<u>\$26,567</u>	<u>\$4,926</u>	<u>\$55,062</u>

The Company's geographic segment information is as follows:

	June 30, 2012				
	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
<b>Assets</b>					
Current assets	\$-	\$-	\$-	\$4,644	\$4,644
Property, plant and equipment	-	-	-	67	67
	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$4,711</u>	<u>\$4,711</u>
<b>Liabilities</b>					
Current liabilities	\$87,419	\$24,151	\$22,368	\$19,722	\$153,660

	December 31, 2011				
	Choco Mine	Isidora Mine	Exploration, Evaluation and Development	Corporate	Total
<b>Assets</b>					
Current assets	\$12,487	\$6,348	\$6,766	\$1,276	\$26,877
Property, plant and equipment	-	-	-	98	98
	<u>\$12,487</u>	<u>\$6,348</u>	<u>\$6,766</u>	<u>\$1,374</u>	<u>\$26,975</u>
<b>Liabilities</b>					
Current liabilities	\$84,308	\$20,602	\$19,409	\$21,797	\$146,116

## 16. JOINT VENTURE INTEREST

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

	<b>June 30, 2012</b>	December 31, 2011
<b>Assets</b>		
Current assets (a)	\$-	\$6,348
	<u>\$-</u>	<u>\$6,348</u>
<b>Liabilities</b>		
Current liabilities	\$24,151	\$20,602
	<u>\$24,151</u>	<u>\$20,602</u>

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2012</b>	June 30, 2011	<b>June 30, 2012</b>	June 30, 2011
Revenues	\$-	\$3,618	\$1,348	\$9,743
Expenses	(42)	(7,957)	(9,239)	(13,445)
Foreign exchange (loss) gain	-	(838)	302	(661)
<b>Net loss</b>	<u>\$(42)</u>	<u>\$(5,177)</u>	<u>\$(7,589)</u>	<u>\$(4,363)</u>

(a) The amount of \$Nil as at June 30, 2012 is net of allowances for doubtful recovery of receivables of \$695 and of prepaid expenses and deposits of \$3,302, which were recorded as a result of the Nationalization (Note 1).

## **17. COMMITMENTS AND CONTINGENCIES**

### **a. Commitments**

At June 30, 2012, the Company is committed to payments under operating leases for premises as follows:

	<b>June 30, 2012</b>
2012	\$11
2013	21
2014	24
2015	24
2016 and thereafter	24
<b>Total</b>	<u><u>\$104</u></u>

### **b. Contingencies**

#### *i. Gold Reserve Lawsuit*

On December 15, 2008, the Company launched an unsolicited take-over bid ("the Gold Reserve Bid") for Gold Reserve Inc. ("Gold Reserve"). On February 18, 2009, the Company's offer for Gold Reserve expired and because the conditions of the Company's offer were not met, the Company did not take up any securities under the offer. The Company recorded the costs related to the Gold Reserve Bid and the resulting litigation as an other expense in 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 \$500,000 and punitive damages of \$50,000 on the basis that the Advisor improperly used Gold Reserve's confidential information in advising the Company on the take-over bid. In February 2009, Gold Reserve obtained an interlocutory injunction to restrain the take-over bid. The Company subsequently served its defense and counterclaim in which it denied the allegations against it and sought damages of \$102,500 in respect of losses it has sustained as a result of the injunction's issuance.

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

#### *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 and/or denial of the Company's ability to generate revenues. No amount has been accrued in these interim 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.

## **17. COMMITMENTS AND CONTINGENCIES (Continued)**

### *iii. Other Matters*

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

### *iv. 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.

In addition to the Litigation Funding Agreement the Company has also provided contingent success fees to select stakeholders in consideration for their discounted services or forgiveness of obligations. As at June 30, 2012 litigation success is deemed to be indeterminable and \$Nil has been accrued.

## **18. 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, and derivative financial liabilities in the form of share purchase warrants (as issued by the Company) with exercise prices denoted in a foreign currency (Note 9) and a gold delivery contract (Note 7).

The carrying amounts of cash, receivables and accounts payable and accrued liabilities 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 7), and as such, is a reasonable approximation of the fair value. The share purchase warrants with exercise prices denoted in a foreign currency are carried at fair value on the interim financial statements and have been classified as level 2 as the valuation method used by the Company includes an assessment of the historical stock prices in quoted markets. 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 June 30, 2012, except for the liability component of the convertible loan which has a fair value (as determined by the net present value method) of \$30,000 (December 31, 2011: \$30,000)

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.

## 18. FINANCIAL INSTRUMENTS (Continued)

Financial liabilities at fair value as at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Derivative financial liability – Gold contract	\$-	(11,201)	\$-	(11,201)
Share purchase warrants in foreign currency	\$-	\$-	\$-	\$-
<b>Balance, June 30, 2012</b>	<b>\$-</b>	<b>\$(11,201)</b>	<b>\$-</b>	<b>\$(11,201)</b>

Financial liabilities at fair value as at December 31, 2011:

	Level 1	Level 2	Level 3	Total
Derivative financial liability – Gold contract	\$-	(\$10,169)	\$-	(\$10,169)
Share purchase warrants in foreign currency	\$-	\$-	\$-	\$-
<b>Balance, December 31, 2011</b>	<b>\$-</b>	<b>(\$10,169)</b>	<b>\$-</b>	<b>(\$10,169)</b>

### 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. Management determines concentration by the percentage of cash and receivables owed by a single party.

The Company's exposure to credit risk on its C\$ and US dollar cash is limited by maintaining these assets with high credit quality financial institutions. The Company is exposed to the credit risk of Venezuelan banks, which hold cash for the Company's cash needs in Venezuela. 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 also exposed to the credit risk of the Central Bank of Venezuela ("CBV"), as the Company's trade receivables are due from the CBV.



## 18. FINANCIAL INSTRUMENTS (Continued)

The company's maximum exposure to credit risk is as follows:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	\$470	\$3,382
Receivables	330	5,554
	<u>\$800</u>	<u>\$8,936</u>

Receivables includes an allowance for doubtful recovery of receivables that are financial instruments of \$2,409 (December 31, 2011: \$985)

### 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 table below provides a summary of the contractual obligations and payments related to financial liabilities included in the consolidated statement of financial position as at June 30, 2012. The amounts disclosed are the contractual undiscounted cash flows.

	2012	2013-2014	Total
Accounts payable and accrued liabilities	\$67,042	\$-	\$67,042
Accrual for interest on convertible loan	4,336	-	4,336
Convertible loan	30,000	-	30,000
Accrual for employee termination benefits	15,890	-	15,890
	<u>\$117,268</u>	<u>\$-</u>	<u>\$117,268</u>

### 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 Company monitors its fair value exposure to interest rates and is comfortable with its exposure given the relatively short term of its convertible loan. As at June 30, 2012, 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.

#### (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.

## 18. FINANCIAL INSTRUMENTS (Continued)

There is a currency and exchange controls system in Venezuela. These government-imposed controls may adversely affect the Company as such controls limit the Company's ability to flow US dollars out of the country. As at June 30, 2012, the Company holds cash of \$397 (December 31, 2011: \$2,268) 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 are summarized below:

	<b>June 30, 2012</b>	
	<b>25% Increase in the BsF</b>	<b>25% Decrease in the BsF</b>
Net (loss) profit	(17,441)	13,953

  

	<b>June 30, 2012</b>	
	<b>10% Increase in the C\$</b>	<b>10% Decrease in the C\$</b>
Net (loss) profit	(40)	36

## 19. EVENTS AFTER THE REPORTING PERIOD

On July 17, 2012, the Company filed a Request for Arbitration before the Additional Facility of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") against the Bolivarian Republic of Venezuela ("Venezuela") pursuant to the agreement between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments (the "Treaty"). The arbitration commenced following the passing by the Venezuelan Government of a series of measures that dismantled the legal regime for the marketing of gold in Venezuela and culminated in the outright nationalization and control of Rusoro's investments in Venezuela without compensation. The claim is for breach of the Treaty's protections against expropriation, unfair and inequitable treatment and discrimination, and for breach of the guarantees of full protection and security and free transfer of investments.