

Growth Stocks Weekly

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Junior Gold and Natural Resource Sector Report

January 11, 2010

Consolidating Venezuela's Gold Belt

RUSORO MINING (RML-TSX Venture)

UPDATE



DEVALUATION GOOD NEWS FOR RUSORO

Late Friday Chavez devalued Venezuela's currency, announcing a dual system for the fixed rate bolivar. It devalues the currency to 4.30Bs and 2.60Bs against the dollar, from a rate of 2.15Bs per dollar in place since 2005, giving the better rate for basic goods in an attempt to limit the impact of the measure on consumer prices.

This is excellent news for Rusoro given the alternative they were facing before this development, selling gold to the Central Bank at about 50% of spot.

Rusoro has been warehousing its gold production following a Central Bank edict last year stipulating the percentage of gold that must be sold to the central treasury at 2.15Bs to the \$US, a massive discount to world spot prices. Rusoro has built up a significant inventory of gold totaling some 58,000 ounces, a virtual bottleneck to achieving a higher stock valuation reflecting corporate fundamentals, hopeful for some resolution and a more palatable market price for their growing production profile.

The bottom line now is that Rusoro could now sell 60% of their gold to the BCV at 80% of spot gold price (no VAT), 30% would be exported at spot (no VAT) and 10% domestic sale at 11.75% (plus VAT). Net-net this works out to about 80-85% of the spot gold prices, a significant improvement.

According to company sources, Rusoro is preparing to sell approximately 38,000 ounces, so that would represent an immediate cash injection of between \$35-37 million.

The new tiered mechanism establishes an exchange rate of 2.60 Bolivars per US Dollar to import capital goods, increasing the efficiency of capital expenditures. Rusoro will be allowed to use up to 30% of their liquid proceeds from exports to cover foreign costs, up from 10% which was the previous rule under the law.

Overall, these changes will significantly increase net proceeds from gold sales, reducing the costs associated with the importation of capital items and key consumables related to its on-going mining operations at Choco 10 and the VenRus government joint venture mining operation at Isidora.

Blackouts, Water Shortages

The devaluation is embarrassing for Chavez, who resisted calls from economists and many government allies to make the move last year when oil prices were at their lowest and elections a long way off.

"Venezuela's decision to devalue the Bolivar culminates an event that the market has been anticipating for a long time," said Walter Molano, an analyst at BCP Securities. "It helps alleviate the country's fiscal woes and puts it on a sounder macroeconomic footing."

The devaluation is politically risky but means every dollar of oil revenue puts more Bolivars in government coffers. That allows Chavez to lavish cash on social projects and fund salary increases ahead of parliamentary elections in September.

Opponents were quick to criticize the socialist, who a year ago promised the global financial crisis would not touch "a hair" of Venezuela's economy. He announced the devaluation on Friday night during an important baseball game.

"By establishing the exchange rate at 4.30 Bolivars per dollar, the quality of life for Venezuelans is automatically devalued since we now have half the money we had before," said Caracas Mayor Antonio Ledezma, a Chavez opponent.

The measure is a relief for state oil company PDVSA, which has struggled to pay service providers and meet requirements to fund social projects since crude prices dropped sharply last year. It also makes Venezuelan businesses more competitive.

Holdings of Venezuela's foreign debt are also pleased, since the devaluation improves government finances and lessens the need to issue more bonds.

"The announcement is enormously positive for Venezuelan assets," Alejandro Grisanti, an analyst at Barclays Capital in New York, wrote in a research note today. "It provides a further signal from President Chavez of his willingness to pay, while improving considerably the capacity to pay," leading Barclays to maintain its "overweight" position on the nation's debt.

Chavez said the new 4.30 Bolivars-per-dollar exchange rate will curb imports and reduce the economy's dependence on oil, which has fallen about 40 percent from a 2008 record. Venezuela is South America's biggest oil producer. Venezuela's three-tiered rate system mirrors the failed policy Venezuela implemented after a collapse in oil led to a devaluation in 1983 that Venezuelans call "Black Friday." The system helped spark \$60 billion of capital outflows from the country, according to Chavez's Information Ministry.

Chavez does run the risk of creating an inflation surge and swelling corruption, according to Ricardo Hausmann, who runs Harvard University's Center for International Development and served as Venezuela's planning minister in the 1990s. The country's 27 percent annual inflation rate is already the highest among the 78 economies tracked by Bloomberg. Finance Minister Ali Rodriguez, who has been forecasting 2010 inflation of between 20 and 22 percent, said the devaluation may add as much as 5 percentage points to the rate while Chavez threatened yesterday to seize any stores that raise prices.

Strategic Focus Unchanged

Part of Rusoro's successful strategy in Venezuela has been to use its in-country operating experience and political connections to resolve the various hurdles encountered by other parties attempting to operate in Venezuela. A good example is Gold Fields at Choco 10, aggravated by local labour relations and poorly managed governmental ties. Rusoro's subsequent focus and results at Choco 10 optimized operating efficiency, lowered costs and improved production ramp-up alternatives.

Another well-engineered transaction was Rusoro's completion of the acquisition of Hecla Mining's Venezuelan assets, for which Rusoro paid \$25 million in cash and shares. Hecla was also having some operational issues in Venezuela and after a three

month shutdown they decided a partnership would be the best scenario going forward. Rusoro moved quickly to optimize operating efficiencies and resolve the local issues.

These acquisitions were followed by last July's official confirmation by the Venezuelan Government that Rusoro is the State's "Partner of Choice", giving Rusoro a big leg up, well ahead of other potential operators, as THE go-to regional consolidator.

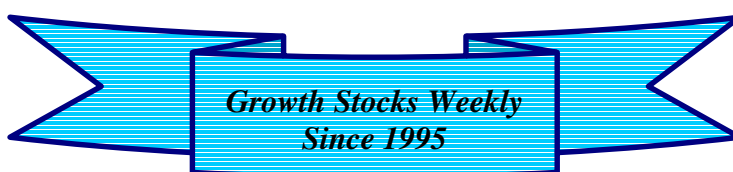
Potential takeovers and mergers may yet catapult Rusoro to join the world's gold production big leagues, but completion of a Definitive Feasibility Study and Environmental Impact Assessment by Q2 2010 is a significant leap forward in its own right, providing an enviable track record of transparent organic growth.

Rusoro remains on track to become the world's next intermediate gold producer on an international scale. There are surprisingly few gold projects in the world today that combine the qualities of significant annual gold production, lower quartile operating costs and a relatively long mine life. Rusoro's forecast production levels as estimated in their latest study places Rusoro within the top 25 gold producing mines, worldwide.

Chavez, whose popularity usually rises in correlation with public spending, also said on Friday that the Central Bank had transferred \$7 billion of foreign reserves to a development fund used to finance investment projects.

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