GOLD RESERVE INC.

September 30, 2009

Interim Consolidated Financial Statements

U.S. Dollars

(unaudited)

CONSOLIDATED BALANCE SHEETS

September 30, 2009 *(unaudited)*

U.S. Dollars	September 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 64,929,042	$ 91,550,167
Marketable equity securities (Note 4)	964,590	1,342,760
Deposits, advances and other	916,741	1,123,002
Total current assets	66,810,373	94,015,929
Property, plant and equipment, net (Note 8)	182,310,981	175,132,478
Marketable debt securities (Note 5)	10,223,085	–
Restricted cash (Note 13)	15,018,702	17,509,672
Prepaid and other	1,054,485	956,435
Total assets	$ 275,417,626	$ 287,614,514
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 3,307,153	$ 8,134,708
Accrued interest	1,641,849	236,848
Total current liabilities	4,949,002	8,371,556
Convertible notes (Note 11)	92,920,792	91,829,699
Minority interest in consolidated subsidiaries	2,298,144	2,306,823
Total liabilities	100,167,938	102,508,078
Measurement uncertainty (Note 1)		
Commitments (Note 13)		
SHAREHOLDERS' EQUITY		
Serial preferred stock, without par value, none issued	–	–
Common shares and equity units, without par value (Note 12)	247,893,297	247,501,272
Equity component of convertible notes (Note 11)	28,652,785	28,774,221
Less common shares held by affiliates	(636,267)	(636,267)
Stock options	9,904,201	9,428,802
Accumulated deficit	(110,243,177)	(100,180,541)
Accumulated other comprehensive income (loss)	(210,460)	329,640
KSOP debt	(110,691)	(110,691)
Total shareholders' equity	175,249,688	185,106,436
Total liabilities and shareholders' equity	$ 275,417,626	$ 287,614,514

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors:

s/ Chris D. Mikkelsen s/ Patrick D. McChesney

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2009 and 2008 *(unaudited)*

	Three Months Ended		Nine Months Ended	
U.S. Dollars	**2009**	**2008**	**2009**	**2008**
OTHER INCOME				
Interest	$ 74,672	$ 546,992	$ 221,924	$ 2,365,411
Foreign currency gain (loss)	46,779	(258,319)	(4,142)	185,865
Gain on extinguishment of debt	–	–	601,936	–
Gain (loss) on disposition of marketable securities	285,362	–	2,139,345	(243,053)
	406,813	288,673	2,959,063	2,308,223
EXPENSES				
General and administrative	988,674	1,883,697	3,485,926	6,335,877
Technical services	795,160	1,472,269	2,475,253	4,532,370
Loss on sale of equipment	3,423,544	–	3,423,544	–
Takeover defense and litigation (Note 14)	25,982	–	2,025,987	–
Corporate communications	195,166	264,806	544,177	964,205
Legal and accounting	547,074	141,278	910,012	570,910
	5,975,600	3,762,050	12,864,899	12,403,362
Net loss before tax and minority interest	$ (5,568,787)	$ (3,473,377)	$ (9,905,836)	$ (10,095,139)
Minority interest	3,715	(7,776)	8,679	(24,496)
Net loss before tax	$ (5,565,072)	$ (3,481,153)	$ (9,897,157)	$ (10,119,635)
Income tax benefit (expense)	1,198	(307,558)	(165,479)	(700,788)
Net loss for the period	$(5,563,874)	$ (3,788,711)	$ (10,062,636)	$(10,820,423)
Net loss per share, basic and diluted	$ (0.10)	$ (0.07)	$ (0.18)	$ (0.19)
Weighted average common shares outstanding	57,421,516	56,083,516	57,269,130	55,876,041

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT
For the Nine Months Ended September 30, 2009 and 2008 *(unaudited)*

U.S. Dollars	
Deficit, December 31, 2008	$ (100,180,541)
Net loss for the period	(10,062,636)
Deficit, September 30, 2009	$ (110,243,177)
Deficit, December 31, 2007 (restated, Note 2)	$ (80,454,420)
Net loss for the period	(10,820,423)
Deficit, September 30, 2008	$ (91,274,843)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Three and Nine Months Ended September 30, 2009 and 2008 *(unaudited)*

	Three Months Ended		Nine Months Ended	
U.S. Dollars	**2009**	**2008**	**2009**	**2008**
Net loss for the period	$ (5,563,874)	$ (3,788,711)	$ (10,062,636)	$ (10,820,423)
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on marketable securities	647,823	(592,156)	1,599,245	(1,589,268)
Adjustment for realized (gains) losses included in net loss	(285,362)	–	(2,139,345)	243,053
Other comprehensive income (loss)	362,461	(592,156)	(540,100)	(1,346,215)
Comprehensive loss for the period	$ (5,201,413)	$ (4,380,867)	$ (10,602,736)	$ (12,166,638)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three and Nine Months Ended September 30, 2009 and 2008 *(unaudited)*

	Three Months Ended		Nine Months Ended	
U.S. Dollars	**2009**	**2008**	**2009**	**2008**
Cash Flows from Operating Activities:				
Net loss for the period	$ (5,563,874)	$ (3,788,711)	$ (10,062,636)	$ (10,820,423)
Adjustments to reconcile net loss to net cash used by operating activities:				
Stock option compensation	90,657	437,123	475,399	1,595,060
Depreciation	53,548	67,103	161,595	180,668
Amortization of premium on marketable securities	48,066	–	61,650	–
Gain on extinguishment of debt	–	–	(601,936)	–
Loss on sale of equipment	3,423,544	–	3,423,544	–
Foreign currency (gain) loss	(142,699)	357,349	(34,621)	(252,870)
Minority interest in net (income) loss of consolidated subsidiaries	(3,715)	7,776	(8,679)	24,495
Net loss (gain) on disposition of marketable securities	(285,362)	–	(2,139,345)	243,053
Future income tax expense	–	305,050	169,815	693,504
Shares issued for compensation	–	–	392,025	2,462,484
Changes in non-cash working capital:				
Net (increase) decrease in deposits and advances	386,049	523,281	178,761	(558,251)
Net increase (decrease) in accounts payable and accrued expenses	(1,143,286)	273,273	(4,849,511)	(5,004,604)
Net cash used in operating activities	(3,137,072)	(1,817,756)	(12,833,939)	(11,436,884)
Cash Flows from Investing Activities:				
Proceeds from disposition of marketable securities	2,118,614	1,000,000	5,192,893	3,716,821
Purchase of marketable securities	(250,000)	(1,000,000)	(13,670,028)	(2,512,239)
Purchase of property, plant and equipment	(6,062,697)	(10,705,548)	(11,818,595)	(32,093,663)
Proceeds from sales of equipment	7,297,598	–	7,297,598	–
Decrease in restricted cash	1,742,162	2,295,131	2,490,970	14,044,787
Capitalized interest paid on convertible notes	–	–	(2,828,841)	(2,846,250)
Other	(7,460)	98,556	(35,929)	(117,738)
Net cash (used in) provided by investing activities	4,838,217	(8,311,861)	(13,371,932)	(19,808,282)
Cash Flows from Financing Activities:				
Net proceeds from the issuance of common shares	–	–	–	309,205
Extinguishment of convertible notes	–	–	(415,254)	–
Net cash (used in) provided by financing activities	–	–	(415,254)	309,205
Change in Cash and Cash Equivalents:				
Net increase (decrease) in cash and cash equivalents	1,701,145	(10,129,617)	(26,621,125)	(30,935,961)
Cash and cash equivalents - beginning of period	63,227,897	73,874,232	91,550,167	94,680,576
Cash and cash equivalents - end of period	$ 64,929,042	$ 63,744,615	$ 64,929,042	$ 63,744,615

The accompanying notes are an integral part of the consolidated financial statements.

Selected Notes to Consolidated Financial Statements

For the Nine Months Ended September 30, 2009 and 2008 *(unaudited)*

Expressed in U.S. Dollars

1. Basis of Presentation and Measurement Uncertainty

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in Canada for complete financial statements.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position of Gold Reserve Inc. and subsidiaries (the "Company, we, us, or our") as of September 30, 2009, and the results of operations and the cash flows for the three and nine months ended September 30, 2009 and 2008. The results of operations for the nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year.

Except as noted in Note 2 below, these financial statements follow the same accounting policies and methods of their application as the most recent consolidated annual audited financial statements, and should be read in conjunction with the consolidated financial statements, including notes thereto, included in the 2008 annual report.

Our operations in Venezuela are subject to the effects of changes in legal, tax and regulatory regimes, national and local political issues, Venezuelan legal system, labor and economic developments, social and political unrest, currency and exchange controls, gold sale controls, import/export restrictions, government bureaucracy, corruption and uncertain legal enforcement.

After approximately eighteen months of exhaustive efforts by the Company to meet with and resolve the Venezuelan government's arbitrary revocation of the Authorization to Affect and more recently, the denial of the normal course extension of our Brisas alluvial and the El Pauji concessions which by Venezuelan law were already approved, the Company on October 21, 2009, filed a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") of the World Bank, in Washington D.C., against the Bolivarian Republic of Venezuela.

In evident retaliation, Venezuelan government personnel arrived at the Brisas camp on October 26, 2009, claimed ownership of the Brisas alluvial concession, seized assets and took physical possession of the property. The 500-hectare Brisas alluvial concession has the same surface area as the underlying hard rock concession area. These actions came less than a week after the Company filed its request for international arbitration. Subsequently on November 4, 2009, the Venezuelan government notified the Company through the issuance of an Administrative Act, dated October 21, 2009, of its intent to cancel the Company's underlying hard rock concession. These actions appear to be a continuation of the Venezuelan government's discriminatory treatment of Gold Reserve and a further demonstration of the government's earlier decision to expropriate the entire Brisas Project.

At September 30, 2009, with the exception of machinery and equipment deposits, substantially all of the Company's property, plant and equipment related to the Brisas Project is located in Venezuela (See footnote 8 Property, Plant and Equipment- Venezuela). The valuation and future recoverability of such assets are primarily subject to the outcome of our investment dispute with the Venezuelan government, the Company's ability to redeploy the equipment to another project or its ability to otherwise sell such assets in the future.

The future recoverability of amounts recorded on the balance sheet associated with the Brisas Project are based on, among other things, management's estimates and assumptions regarding the future recoverability of costs pursuant to the development and operation of Brisas, the disposition of Brisas to a third-party or the Venezuelan government or a recovery of its investment as a result of a future arbitral award. Based on this analysis management has concluded that no adjustment to the carrying value of capitalized costs associated with the development of Brisas is warranted at this time. These assumptions and estimates could change in the future which could materially affect the carrying value and the ultimate recoverability of the amounts recorded as property and mineral rights, capitalized exploration and development costs and other assets, which totaled approximately $182 million at September 30, 2009.

The Company operates and files tax returns in a number of jurisdictions. The preparation of such tax filings requires considerable judgment and the use of assumptions. Accordingly, the amounts reported could vary in the future.

2. Restatement and New Accounting Policies

On September 30, 2008, the Company adopted EIC 172, Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain in Other Comprehensive Income. This abstract provides guidance on whether the tax benefit of tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale securities, should be recognized in net income or in other comprehensive income. Upon adoption, EIC 172 was applied retrospectively with restatement of prior periods from January 1, 2007 resulting in a reclassification of $916,834 from accumulated other comprehensive income to accumulated deficit as of December 31, 2007.

New Accounting Policies:

Expressed in U.S. Dollars

CICA Section 3064, Goodwill and Intangible Assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard effective January 1, 2009 did not have a material impact on the Company's financial statements.

EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on taking into account the credit risk of an entity and counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The adoption of this standard effective January 1, 2009 did not have a material impact on the Company's financial statements.

EIC 174, Mining Exploration Costs. This abstract provides guidance on when exploration costs related to mining properties may be capitalized and when an impairment assessment of previously capitalized exploration costs should be made. This abstract was effective for financial statements issued after March 27, 2009 and did not have a material impact on the Company's financial statements.

FASB 165, Subsequent events. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This standard was adopted effective July 1, 2009 and did not have a material impact on the Company's financial statements.

Future Accounting Policies:

CICA Section 1582, Business Combinations. This Section replaces Section 1581 and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently evaluating the impact of this Section on its financial statements.

CICA Section 1601, Consolidated Financial Statements. This section establishes standards for the preparation of consolidated financial statements and applies to financial reporting periods beginning on or after January 1, 2011. The Company is currently evaluating the impact of this Section on its financial statements.

CICA Section 1602, Non-Controlling Interests. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination and applies to financial reporting periods beginning on or after January 1, 2011. The Company is currently evaluating the impact of this Section on its financial statements.

3. Cash and Cash Equivalents

	September 30, 2009	December 31, 2008
Bank deposits	$ 58,305,953	$ 85,925,019
Money market funds	6,623,089	5,625,148
Total	$ 64,929,042	$ 91,550,167

The above amounts exclude restricted cash of approximately $15 million and $17.5 million as at September 30, 2009 and December 31, 2008, respectively. See Note 13, Commitments. At September 30, 2009 and December 31, 2008, the Company had approximately $123,000 and $205,000 respectively, in Venezuela and banks outside Canada and the U.S.

Expressed in U.S. Dollars

4. Marketable Equity Securities

	September 30, 2009	December 31, 2008
Fair value at beginning of year	$1,342,760	$ 4,987,511
Acquisitions	2,135,293	12,239
Dispositions, at cost	(1,803,548)	(1,459,874)
Realized (gain) loss on sale	(2,139,345)	243,053
Unrealized gain (loss)	1,429,430	(2,440,169)
Fair value at balance sheet date	$ 964,590	$ 1,342,760

The Company's marketable equity securities are classified as available-for-sale and are recorded at quoted market value with gains and losses recorded within other comprehensive income until realized. As of September 30, 2009 and December 31, 2008 marketable securities had a cost basis of $1,175,049 and $843,305, respectively.

5. Marketable Debt Securities

	September 30, 2009	December 31, 2008
Amortized cost	$ 10,223,085	$ –

The Company's marketable debt securities are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method.

6. Financial Instruments

The fair values as at September 30, 2009 and December 31, 2008 along with the carrying amounts shown on the consolidated balance sheets for each classification of financial instrument are as follows:

		September 30, 2009		December 31, 2008	
	Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	held for trading	$ 64,929,042	$ 64,929,042	$ 91,550,167	$ 91,550,167
Restricted cash	held for trading	15,018,702	15,018,702	17,509,672	17,509,672
Marketable equity securities	available for sale	964,590	964,590	1,342,760	1,342,760
Marketable debt securities	held to maturity	10,223,085	10,223,085	–	–
Derivative liability	held for trading	–	–	1,442,635	1,442,635
A/P and accruals	other financial liabilities	3,307,153	3,307,153	6,692,073	6,692,073
Accrued interest	other financial liabilities	1,641,849	1,641,849	236,848	236,848
Convertible notes	other financial liabilities	92,920,792	67,038,595	91,829,699	37,723,480

Fair value estimates for marketable equity securities are made at the balance sheet date by reference to published price quotations in active markets. At September 30, 2009 and December 31, 2008, the fair value of the convertible notes was estimated using an indicative valuation based on recent market information.

The Company is exposed to various risks including credit risk, liquidity risk, currency risk and interest rate risk as described below:

a) Credit risk is the risk that a counterparty will fail to meet its obligations to the Company. The Company's primary exposure to credit risk is through its cash and cash equivalents, restricted cash and marketable debt securities balances. The Company diversifies its cash holdings into major Canadian and U.S. financial institutions and corporations.

Expressed in U.S. Dollars

b) Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with its financial liabilities. The Company manages this risk by maintaining adequate cash balances through equity and debt offerings to meet its current and foreseeable obligations. The following table presents the Company's payments due on accounts payable and accrued expenses and its undiscounted interest and principal payments due on its convertible notes, based on the estimate that the term of the notes will end on June 15, 2012. If the notes were to reach their contractual maturity date of June 15, 2022, additional interest payments would amount to $56.3 million over the additional ten year term of the notes.

	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
A/P and accruals	$ 3,307,153	$ 3,307,153	–	–	–
Interest	16,887,585	5,629,195	$ 11,258,390	–	–
Principal	102,349,000	–	102,349,000	–	–
Total	$ 122,543,738	$ 8,936,348	$ 113,607,390	–	–

c) The Company is subject to currency risk mainly due to its operations in Venezuela. Transactions denominated in foreign currency are exposed to exchange rate fluctuations which have an impact on the statement of operations. The Company's cash, value added tax and other monetary assets and liabilities that are held in Venezuelan and Canadian currency are subject to fluctuations against the US dollar. A 10% weakening of those currencies against the US dollar would have increased the Company's net loss from the translation of foreign currency denominated financial instruments, for the nine months ended September 30, 2009 and 2008, by the amounts shown below.

	2009	2008
Venezuelan Bolívar	$64,552	$ 77,850
Canadian dollar	3,485	4,482
Total	$ 68,037	$ 82,332

The Company limits the amount of currency held in non-U.S dollar accounts, but does not actively use derivative instruments to limit its exposure to fluctuations in foreign currency rates.

d) The Company is subject to the risk that changes in market interest rates will cause fluctuations in the fair values of its financial instruments. Cash and cash equivalents earn floating market rates of interest. Other current financial assets and liabilities are generally not exposed to this risk because of their immediate or short-term maturity. The interest rate on the Company's convertible notes is fixed and therefore the interest payments are not subject to changes in market rates of interest.

7. Capital Management

The capital structure of the Company consists of common shares and equity units, convertible notes, stock options, accumulated deficit, accumulated other comprehensive income and KSOP debt. The Company's objectives when managing its capital are to:

a) maintain sufficient liquidity in order to meet financial obligations including the costs of acquiring and developing mining projects and servicing debt;
b) safeguard the Company's assets and its ability to continue as a going concern and
c) maintain a capital structure that provides the flexibility to access additional sources of capital with minimal dilution to existing shareholders.

The Company manages its capital consistent with the objectives stated above and makes adjustments to its capital structure based on economic conditions and the risk characteristics of the underlying assets. The Company is in compliance with the covenants of its convertible notes. There were no changes to the Company's capital management during 2009.

Expressed in U.S. Dollars

8. Property, Plant and Equipment

September 30, 2009	Cost	Accumulated Depreciation	Net
United States			
Furniture and office equipment	$ 497,982	$ (388,536)	$ 109,446
Leasehold improvements	41,190	(36,559)	4,631
	$ 539,172	$ (425,095)	$ 114,077
Venezuela			
Property and mineral rights	$ 11,252,335		$ 11,252,335
Capitalized exploration and development costs	85,229,050		85,229,050
Capitalized interest	37,708,619		37,708,619
Machinery and equipment deposits	47,225,339		47,225,339
Buildings	756,282	(402,836)	353,446
Furniture and office equipment	604,781	(545,735)	59,046
Transportation equipment	636,187	(488,333)	147,854
Machinery and equipment	548,964	(327,749)	221,215
	183,961,557	(1,764,653)	182,196,904
Total	$ 184,500,729	$ (2,189,748)	$ 182,310,981

December 31, 2008	Cost	Accumulated Depreciation	Net
United States			
Furniture and office equipment	$ 485,036	$ (355,924)	$ 129,112
Leasehold improvements	35,633	(35,633)	–
	$ 520,669	$ (391,557)	$ 129,112
Venezuela			
Property and mineral rights	$ 11,252,335		$ 11,252,335
Capitalized exploration and development costs	84,267,573		84,267,573
Capitalized interest	31,487,930		31,487,930
Machinery and equipment deposits	47,081,189		47,081,189
Buildings	756,282	(368,600)	387,682
Furniture and office equipment	602,476	(519,883)	82,593
Transportation equipment	636,187	(425,685)	210,502
Machinery and equipment	557,561	(323,999)	233,562
	176,641,533	(1,638,167)	175,003,366
Total	$ 177,162,202	$ (2,029,724)	$ 175,132,478

Machinery and equipment deposits include amounts paid for infrastructure and milling equipment either in the manufacturing stage or being stored by the manufacturer.

Expressed in U.S. Dollars

9. Geographic Segments

Net Loss for the Three and Nine Months Ended September 30, 2009 and 2008

	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
US/Canada	$ 1,667,085	$ 2,520,092	$ 4,703,615	$ 7,972,129
Venezuela	3,896,789	1,268,619	5,359,021	2,848,294
Consolidated	$ 5,563,874	$ 3,788,711	$ 10,062,636	$ 10,820,423

10. Stock Based Compensation

The Company has two equity incentive plans; the 1997 Equity Incentive Plan (last amended in March 2006 and last re-approved by the shareholders in June 2009, the "1997 Plan") and the 2008 Venezuelan Equity Incentive Plan (approved by the shareholders in June 2008, the "Venezuelan Plan"). Both plans permit the grants of stock options, stock appreciation rights and restricted stock, or any combination thereof, and each shall be 10% of the Company's outstanding shares, from time to time. The grants will be for terms up to ten years with vesting periods ranging from immediate to up to 3 years. As of September 30, 2009, there were a total of 43 participants in the plans.

Insiders (officers and directors) of the Company and its subsidiaries are not eligible to participate in the Venezuelan Plan. Subsequent to shareholder approval in June 2008, 1,056,947 options previously granted to Venezuelan employees and consultants under the 1997 Plan were transferred to the Venezuelan Plan. The 1997 Plan remains available for insiders, employees and consultants of the Company.

Combined share option transactions for the nine months ended September 30, 2009 and 2008 are as follows:

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	5,007,931	$ 3.18	4,445,139	$ 4.14
Options exercised	–	–	(162,133)	1.91
Options expired	(584,589)	4.01	(60,000)	4.79
Options forfeited	(79,667)	4.42	(74,667)	4.71
Options granted	547,500	0.73	–	–
Options outstanding at end of period	4,891,175	2.79	4,148,339	4.21
Options exercisable at end of period	3,442,265	$ 3.73	3,426,248	$ 4.09
Options available for grant at end of period under 1997 plan	1,794,322		2,582,220	
Options available for grant at end of period under Venezuelan plan	4,948,661		4,635,999	

	Price Range	Price Range
Exercise price at end of period	$0.29 - $ 5.36	$ 0.72 - $ 5.36
Exercise price for exercisable shares	$0.29 - $ 5.36	$ 0.72 - $ 5.36

Expressed in U.S. Dollars

The following table relates to stock options at September 30, 2009

Price Range	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price of Exercisable Options
$0.29 - $0.29	1,303,352	4.18	$0.29	434,442	$0.29
$0.73 - $1.89	974,000	3.00	$1.24	426,500	$1.89
$3.69 - $4.19	726,000	1.93	$4.09	726,000	$4.09
$4.22 - $4.62	416,500	1.87	$4.49	416,500	$4.49
$4.83 - $4.83	1,192,323	0.89	$4.83	1,159,823	$4.83
$5.07 - $5.36	279,000	2.16	$5.19	279,000	$5.19
$0.29 - $5.36	4,891,175	2.50	$2.79	3,442,265	$3.73

The Company recorded compensation expense, during the nine months ended September 30, 2009 and 2008, of $475,398 and $1,595,060, respectively, for stock options granted. During the nine months ended September 30, 2009, 547,500 new options were granted. The fair value of options granted was calculated at $323,449 using the Black-Scholes model based on the following assumptions:

Weighted average risk free interest rate	1.46%
Expected life	4.6 years
Expected volatility	120%
Dividend yield	nil

In addition to the equity incentive plans, the Company also maintains the Gold Reserve Director and Employee Retention Plan. Units granted under the plan become fully vested and payable upon achievement of certain milestones related to the Brisas project or in the event of a change of control. Each Unit granted to a participant entitles such person to receive a cash payment equal to the fair market value of one Gold Reserve Class A Common Share (1) on the date the Unit was granted or (2) on the date any such participant becomes entitled to payment, whichever is greater. As of September 30, 2009, an aggregate of 1,732,500 unvested Units have been granted to directors, executive officers and affiliates of the Company and 315,000 Units have been granted to other participants. The value of these units, based on the grant date value of the Class A shares, was approximately $8.9 million.

11. Convertible Notes

In May 2007, the Company issued $103,500,000 aggregate principal amount of its 5.50% Senior subordinated convertible notes. The notes are unsecured, bear interest at a rate of 5.50% annually, pay interest semi-annually in arrears and are due on June 15, 2022. The notes are convertible into Class A common shares of the Company at the initial conversion rate, subject to adjustment, of 132.626 shares per $1,000 principal amount (equivalent to a conversion price of $7.54). Upon conversion, the Company will have the option, unless there has occurred and is then continuing an event of default under the Company’s indenture, to deliver common shares, cash or a combination of common shares and cash for the notes surrendered.

At December 31, 2008, the Company revised its estimate of the expected life of the notes to June 15, 2012, the date of the one-time option of the note holders to require the Company to repurchase the notes, at the option of the Company, either in cash or through the issuance of stock, and adjusted the carrying value accordingly. Management considered a number of factors in its evaluation including general market conditions resulting from the credit crisis which occurred during the fourth quarter, the current stock price compared to the stock price at the date of the issuance of the debt, the current trading value of the debt and the relative small number of note holders controlling an estimated 80% of the total outstanding. After consideration of these factors, management concluded that the expected life of the notes should be changed because it appeared more than likely that the note holders would exercise their option to require the Company to repurchase the notes on June 15, 2012. All other terms and conditions set forth in the notes remain unchanged. The adjusted carrying value was calculated by computing the present value of the estimated future interest and principal payments at the original effective interest rate. As a result of this change, the carrying value of the notes increased by approximately $20.5 million with a corresponding increase in capitalized interest and accretion.

The note holders have the option to require the Company to repurchase the notes on June 15, 2012, at a price equal to 100% of the principal amount of the notes plus accrued but unpaid interest. The Company may elect to satisfy its obligation to pay the repurchase price, in whole or in part, by delivering Common Shares. In the event of a change of control of the Company, the Company may be required to offer to repurchase the notes at a purchase price equal to 100% of the principal amount of the notes plus accrued but unpaid interest unless there has occurred and is continuing certain events of default under the Company's indenture.

At any time on or after June 16, 2010, and until June 15, 2012, the Company may redeem the notes, in whole or in part, for cash at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest if the closing sale price of the Common Shares is equal to or greater than 150% of the conversion price then in effect and the closing price for the Company's Common Shares has remained above that price for at least twenty trading days in the period of thirty trading days preceding the Company's notice of redemption. Beginning on June 16, 2012, the Company may, at its option, redeem all or part of the notes for cash at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest.

Canadian accounting standards require the Company to allocate the notes between their equity and debt component parts based on their respective fair values at the time of issuance. The liability component was computed by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component. The equity portion of the notes was estimated using the residual value method at approximately $29 million, net of issuance costs. The fair value of the debt component is accreted to the face value of the notes using the effective interest rate method over the expected life of the notes, with the resulting charge recorded as interest expense. The expected life of the notes is an estimate and is subject to change, if warranted by facts and circumstances related to the potential early redemption of the notes by either the Company or the holders. Interest and accretion expense allocable to the qualifying cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use. The Company capitalized interest and accretion expense totaling $6.2 million and $5.1 million, during the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, convertible notes with a face value of $1,151,000 had been converted for cash or repurchased by the Company at a total cost of approximately $451,000. At September 30, 2009 and December 31, 2008, the fair value of the convertible notes was estimated to be $67.0 million and $37.7 million, respectively, based on recent market information

12. Common Shares and Equity Units

During the nine months ended September 30, 2009, the Company issued 551,500 shares at an average price of $0.71 per share as compensation. As of September 30, 2009, there were a total of 57,670,555 Class A and 500,236 Class B shares issued.

During the nine months ended September 30, 2008, the Company issued 162,133 shares at an average price of $1.91 per share upon exercise of stock options, and 524,625 shares at an average price of $4.69 per share were issued as compensation.

13. Commitments

In mid 2007, we commenced procurement efforts and placed orders totaling approximately $125 million for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors, and other equipment for the Brisas Project. Since the revocation of the Authorization to Affect the Company, in the fourth quarter of 2008 and the third quarter of 2009, sold certain equipment (one SAG mill, two ball mills (35,000 tonne per day through-put) and related motors as well as mobile equipment) originally costing approximately $53.1 million. The Company recovered approximately $26.5 million of progress payments and the purchaser assumed the Company's remaining payment obligations of approximately $21.9 million resulting in a combined loss on sale of equipment of approximately $4.7. As of September 30, 2009, the Company has equipment commitments totaling $61.7 million and has made payments on these orders of $47.4 million. Payments on the remaining commitments of $14.3 million are due within one year. In connection with a portion of these commitments, the Company opened an irrevocable standby letter of credit with a Canadian chartered bank providing security on the performance of obligations. As of September 30, 2009 and December 31, 2008, the Company had restricted cash of $15 million and $17.5 million, respectively, as required by this letter of credit.

14. Takeover Defense and Litigation

On December 15, 2008, Rusoro Mining Ltd. ("Rusoro") commenced an unsolicited offer to acquire all of the outstanding shares and equity units of the Company in consideration for three shares of Rusoro for each Company share or equity unit. On December 16, 2008, the Company filed an action in the Ontario Superior Court of Justice against Rusoro and Rusoro's financial advisor Endeavour Financial International Corporation ("Endeavour") seeking an injunction restraining Rusoro and Endeavour from proceeding with Rusoro's unsolicited offer, significant monetary damages, and various other items. Endeavour was the Company's financial advisor from 2004 until shortly after the commencement of Rusoro's offer.

On February 10, 2009, the Ontario Superior Court of Justice granted an interlocutory injunction restraining Rusoro from proceeding with any hostile takeover bid to acquire the shares of the Company until the conclusion and disposition at trial of the action commenced by the Company. The injunction was granted by the Court following a motion by the Company on the basis that Rusoro had access to or benefited from the use of the Company's confidential information as a result of Rusoro's relationship with Endeavour. The Court also issued an interlocutory injunction restraining Endeavour from having any involvement with a hostile takeover bid for the Company. The Court further required that Rusoro, Endeavour and their agents return to the Company both all the confidential information of the

Company and also anything produced from that confidential information and pay the court costs. Following the issuance of the interlocutory injunctions, Rusoro withdrew its unsolicited offer to acquire the outstanding shares and equity units of the Company.

On February 15, 2009, Rusoro and Endeavour both served a motion with the Ontario Superior Court of Justice seeking permission to appeal to the Divisional Court the February 10, 2009 order that was granted against them. The Company opposed these motions which were heard in Toronto on April 2, 2009. On April 6, 2009 the permission to appeal was denied. The legal action commenced December 16, 2008 by the Company is ongoing. Rusoro has filed a counterclaim against the Company for, among other things, damages of Cdn $102.5 million allegedly arising from the Company's successful motion for an interlocutory injunction. Endeavour has filed a $500 thousand counter claim against the Company relating to the lost opportunity to earn a success fee from the successful completion of the Rusoro offer.

Costs associated with the takeover defense and litigation amounted to $2.0 million and $5.4 million in 2009 and 2008, respectively. A portion of these costs relate to contracts considered to be derivative instruments or to contain embedded derivatives because the amounts payable are linked to the Company's share price and accordingly they are accounted for at fair value with unrealized gains and losses recorded in income until completion of the terms of the contracts. At September 30, 2009, the value of the contracts has been determined and the contracts are no longer accounted for as derivatives.

15. Subsequent Events

After approximately eighteen months of exhaustive efforts by the Company to meet with and resolve the Venezuelan government's arbitrary revocation of the Authorization to Affect and more recently, the denial of the normal course extension of our Brisas alluvial and the El Pauji concessions which by Venezuelan law were already approved, the Company on October 21, 2009, filed a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") of the World Bank, in Washington D.C., against the Bolivarian Republic of Venezuela.

In evident retaliation, Venezuelan government personnel arrived at the Brisas camp on October 26, 2009, claimed ownership of the Brisas alluvial concession, seized assets and took physical possession of the property. The 500-hectare Brisas alluvial concession has the same surface area as the underlying hard rock concession area. These actions came less than a week after the Company filed its request for international arbitration. Subsequently on November 4, 2009, the Venezuelan government notified the Company through the issuance of an Administrative Act, dated October 21, 2009, of its intent to cancel the Company's underlying hard rock concession. These actions appear to be a continuation of the Venezuelan government's discriminatory treatment of Gold Reserve and a further demonstration of the government's earlier decision to expropriate the entire Brisas Project.