Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a commentary to enable a reader to assess material changes in the financial condition and results of operations of Gabriel Resources Ltd. ("Gabriel" or the "Company") as at and for the years ended December 31, 2012 and 2011.

The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company as at and for the years ended December 31, 2012 and 2011 ("Statements"). The Statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"). All amounts included in the MD&A are in Canadian dollars ("$"), unless otherwise specified. This report is dated as of March 14, 2013, and the Company's public filings, including its most recent Annual Information Form, can be reviewed on the SEDAR website (www.sedar.com).

Overview

Gabriel is a Toronto Stock Exchange listed Canadian resource company engaged in the exploration and development of mineral properties in Romania. Gabriel is presently in the permitting stage and preparing to develop the Rosia Montana gold and silver project (the "Project"). Rosia Montana Gold Corporation ("RMGC") holds an exclusive exploitation licence for the Project. Through its 80.69% equity shareholding in RMGC, Gabriel has a beneficial majority ownership interest in the Project. CNCAF Minvest S.A. ("Minvest"), a Romanian state-owned mining company, owns the remaining 19.31% equity shareholding in RMGC. Gabriel holds a right of first refusal to acquire the minority interest in RMGC from Minvest.

The Company's mission is to create value for all stakeholders from responsible mining. Gabriel is also fully committed to sustainable development in the communities in which it operates. As the Company develops the Project, it will strive to set high standards through good governance, responsible engineering, open and transparent communications, and operations and reclamation based on European Union ("EU") recognized best available techniques – all with the goal of achieving value creation and sustainable development.

Key Issues

Political Situation

The political dynamic in Romania in 2012 was one of change and confrontation between opposing political parties and their respective senior representatives. During 2012 the country was run by four different governments under three different prime ministers. There were two national elections organized during the year; being local party elections in June and parliamentary elections in December. In addition, a national referendum was held in July to vote on the initiation of the process to remove the President from office, 18 months in advance of the end of his term in December 2014.

As a result of the above, the political landscape in Romania changed significantly. The year started under the rule of a coalition government formed mainly from an alliance of the Liberal Democratic Party ("PDL") and a Hungarian-ethnic party ("UDMR"). In February, the then prime minister (Emil Boc, in office since 2009) resigned and was replaced by Mihai Razvan Ungureanu who, although without party affiliation, enjoyed the political support of that alliance. Less than three months later the Ungureanu Government lost a parliamentary 'no confidence' vote, which opened the way for the then political opposition to form a new ruling coalition. In May 2012, the new parliamentary majority, known as the "USL" alliance, and formed by a grouping of the Social Democrat Party ("PSD"), National Liberal Party and Conservative Party, voted for the investiture of a government led by USL co-leader and PSD president, Victor Ponta.

The local elections held on June 10, 2012 marked a significant victory for the USL, who not only gained control at most of the important city halls in Romania but also secured 36 out of 41 county council presidencies.

On July 6, 2012, Romania's Parliament voted to suspend the President, Traian Basescu, pending a public referendum on a proposal for the President's removal from office. The referendum, which was held on July 29, 2012, fell short of the 50% turnout threshold required for the result to be legally binding, despite a significant majority voting for the President's dismissal. The result was approved one month later by the Constitutional Court and President Basescu was reinstated in his official position on September 4, 2012.

During October 2012, a proposal was put before the Alba County Council for the organization of an advisory referendum in Alba County in respect of the recommencement of mining in the Apuseni region and specifically at Rosia Montana, the location of the Project (the "Referendum"). The proposal received Alba County approval on November 16, 2012 and the Referendum was organized in 35 localities in Alba County for December 9, 2012, to coincide with the planned date for the parliamentary elections.

The Referendum saw 62.5% of the participants vote in favor of the resolution to resume mining in the Apuseni Mountains and, specifically, mining at the Project. Furthermore, over 78% of the eligible voters registered in the community of Rosia Montana voted in favor of the resolution.

While the Referendum turn-out was below the threshold of 50% of eligible voters required to validate the result, the overwhelming participant vote in favor of mining in the Apuseni Mountains and at Rosia Montana is shown by almost two in every three voters registering their approval of the resolution in the Referendum. This is a clear demonstration of the groundswell of public support for job creation, and economic regeneration as well as responsible mining in the Apuseni Mountain region.

On December 9, 2012, the parliamentary elections brought an overwhelming victory for USL, who gained two thirds of the parliamentary seats – a position enabling the USL to fully control both 'houses' (the Senate and the Chamber of Deputies) and to adopt important laws without the need for cross-party consensus. The new Parliament was invested on December 21, 2012. Mr Ponta retains his position as Prime Minister, albeit his cabinet has a slightly different structure with some of the former Ministries (including some relevant for the Project) being split and given different functional roles. This includes a new Ministry of Infrastructure Projects of National Interest and Foreign Investments to which, it has been reported by the Romanian national media, overall responsibility for approving the Project may be transferred.

Political Impact on the Project

During 2012 the local and parliamentary elections together with the intense domestic political infighting limited significantly the level of Government engagement on the Project.

For some time the Project has had a high profile in Romania, with wide coverage in television debates, on the internet and in print media. With the uncertainty created by ongoing political change in 2012, and Government focused on internal domestic (as well as EU related) matters together with the parliamentary elections, the Company's expectations on meaningful dialogue were low for much of 2012. Accordingly, prior to the announcement on the Referendum, the Company had scaled back its media communication efforts and more generally its level of expenditure.

The Company's view is that the first half of 2013 will be an important barometer to determine where projects, such as Rosia Montana, which are significant to the economic progression of Romania sit in the list of priorities for the new USL Government. The strong electoral mandate and parliamentary majority position that the USL Government now enjoys marks a departure from the past where coalitions have had to accommodate multiple political agendas. The Company views this apparent stability and strength of Government at the start of a four-year term, along with the establishment of a new Ministry for Infrastructure and Foreign Investments, as a positive basis for engagement on the Project.

The permitting progress of the Project relies heavily on Government approval of the environmental permit ("EP") and the issuance, in accordance with due process and Romanian law, of various permits and approvals at local, county and federal levels of government. The USL Government has stated that it will analyze the Project in a transparent manner and based on an open and democratic dialogue, so that the decisions are in accordance with the national interest, environmental protection and European legislation. In particular, recent comments from both the Prime Minister and Minister for Environment, reported in the Romanian media in 2013 on the status of permitting of the Project, have specifically focused on compliance with European Directives as key to its progression. The Company is confident that it can, and will, comply with its environmental obligations and looks forward to furthering discussions with the relevant Ministries on this topic.

On March 1, 2013, the United States Department of Commerce notified Gabriel of its decision to formally support the Company through the Commerce Department's Advocacy Center for International Trade, which co-ordinates US government resources and authority in support of international business opportunities that involve foreign government decision-makers. As part of such Advocacy assistance, Gabriel anticipates that the US government will assist the Company by communicating to the Romanian Government on behalf of Gabriel's commercial interest in Romania.

The Company will continue to pursue a strategy of engagement with all stakeholders, to explain the critical importance of the Project as part of the sustained economic development for Romania, and its commitment to adhere to the highest standards on engineering, environmental, cultural and social matters.

Project Ownership and Royalty

The Company has held discussions with a number of ministries of previous Governments on the potential for a revised ownership interest in the Project, royalty rates for gold and silver production and the route to successful permitting of the Project. On July 31, 2012 it was reported that the Prime Minister had requested a resumption of the legislative approval process of proposed amendments to the royalty rates applicable to certain resources including precious metals. This followed press reports in late 2011 that the prior Government was seeking to increase the royalty payable to the Romanian state for precious metals production from 4% to 8%.

Since the USL Government came to power in 2012 the Company has had limited discussions with it in respect of Project ownership or royalty rates. However, in 2013 the Prime Minister has reportedly reiterated his view that progress on the permitting status of the Project needs to be aligned with an increase in the State’s participation in the Project, through both ownership interest and royalty.

Environmental & Permitting

<u>Environmental</u>

On September 17, 2010 the Ministry of Environment (“MoE”) recommenced the Technical Analysis Committee (“TAC”) review of the Environmental Impact Assessment (“EIA”). This process remains ongoing, although there has been no meeting of the TAC since November 2011 and the Company is waiting to engage with the USL Government in order to take the TAC review forward.

It is the Company’s understanding that, during 2011, the TAC had concluded that all technical aspects had been clarified to its satisfaction, although the Company still awaits formal feedback from the TAC as to whether further meetings or documentation will be requested. While the Minister of Environment has reportedly noted that the TAC review will be re-initiated when matters such as technical guidelines for the implementation of environmental financial guarantees and environmental liabilities enforcement consistent with EU legislation have been adopted into law by Romania, the Company awaits formal clarification from the USL Government and the TAC as to the next steps in its review process. Gabriel remains unable to provide guidance on the time that it might take the TAC to vote on the EIA or to release its recommendation to the Government. Ultimately, the EP must be approved by a Cabinet decision of the Government prior to its issuance.

The Company has instigated a number of environmental initiatives in recent years to show how the implementation of the Project can assist with cleaning up legacy local environmental degradation from historical unregulated mining activities. One such initiative is an acid rock drainage pilot test work program to clean mine water contaminated with high levels of heavy metals and total dissolved solids above EU and Romanian water standards. These tests have shown successfully that a full scale plant will clean up any water discharges from the Project to levels fully compliant with all regulations in place (and even to potable water standards). The Company is now working with the Government to use the pilot plant for additional testing of a number of other contaminated old mine sites within Romania where water discharge needs to be brought to a level compliant with EU and Romanian regulations.

Permitting Overview

Although the EP is the most important approval for the Project, and while significant progress has been made, including the issuance of archaeological discharge certificates ("ADC") for three of the four open-pits, there are a large number of rights, licenses, permits, approvals and authorizations from the local, county and federal levels of Government required to advance the Project to construction. These permits include zonal urbanism plans for the industrial and protected areas, forestry/agriculture land use change permits, as well as other permits and approvals that follow the issuance of the EP.

The application for, and issuance of, each material license, permit, approval and authorization is governed by a separate set of laws, rules and regulations. To the extent these additional permits and approvals for the development, construction and operation of the Project are not dependent on issue of the EP, or acquisition of surface rights, the processes for each of these are proceeding in parallel with the review of the Project's EIA.

There is no precedent or regulatory timeline in Romania for permitting a mining operation on the scale of the Project, however in the absence of any other extraordinary events, legal or otherwise, the Company expects the current processes for obtaining the majority of the outstanding surface rights acquisitions and other permits and approvals (including initial construction permits for the Project) to take approximately one year from the date the EP is issued by the Government.

Urbanism Plans & Certificates

Romania manages its land planning through several levels of zoning which include (i) general urbanism plans and accompanying local regulations ("PUGs") and (ii) zonal urbanism plans and accompanying local regulations ("PUZs"). In 2002, the local council of Rosia Montana passed resolutions approving a PUG and also a PUZ designating an industrial zone under the footprint of the proposed new mine at Rosia Montana.

Since 2002, the Company has updated the design of the proposed mine, reduced the size of the footprint, expanded the protected zones and incorporated a number of additional changes to the proposed mine, all arising as a result of public consultation. The local council of Rosia Montana is obligated to update the 2002 PUG to reflect these changes and modifications. Accordingly, in 2006, an amended PUZ for the industrial development area of the Project was initiated, and such PUZ was further updated in 2010 ("Industrial Area PUZ").

The Industrial Area PUZ is at an advanced stage, albeit there has been limited progress in 2012. Up to the end of 2011, RMGC had obtained 19 out of the total number of 22 endorsements necessary for the approval of the Industrial Area PUZ. However, as a result of recent modifications to the law governing urbanism plans an additional endorsement has to be obtained, increasing the total number of the required endorsements to 23. Moreover, as result of the ongoing delays to the permitting process, two out of the 19 endorsements expired during 2012. For one, the Company has obtained a new valid endorsement and, for the second, the Company is in dialogue with the relevant authority on the renewal process. After obtaining all the necessary endorsements, the final approval for the Industrial Area PUZ will be given by the local councils of Rosia Montana, Abrud and Bucium.

In addition, in 2009, the local council of Rosia Montana initiated the process for the zonal urbanism plan for the Rosia Montana historical protected area ("Historical Area PUZ") and at the end of 2011 had obtained 10 out of the total of 13 endorsements necessary for its final approval. As per the Industrial Area PUZ, one equivalent endorsement expired in 2012 and has now been replaced by a new endorsement issued by the competent authority.

In February 2013, Parliament approved certain amendments, originally proposed in 2011, to the legislation concerning the approval of zonal urbanism plans, such as the Industrial Area PUZ. These amendments will come into effect after promulgation by the President of Romania and subsequent publication in the official gazette, the timing for which is unknown. These legislative amendments include the introduction of a new approach concerning the previous approval timeline for certain PUZs and set out a new basis for the construction of industrial facilities based on a PUG containing appropriate urbanism provisions. However, some uncertainties remain regarding the application of the new law in respect of the PUZ approval process. Pending clarification, the process for the approval of the Industrial Area PUZ may be amended and/or delayed further.

While the Company understands there is no formal link between the receipt of remaining endorsements for the Industrial Area PUZ, the Historical Area PUZ and the EIA review process, it believes that these respective remaining endorsements are likely to be obtained on, or after, the issuance of the EP.

During 2012, pursuant to local council decisions, the validity of the existing PUGs for Rosia Montana and Abrud were extended through to July 2014. During the latter part of 2012, the local councils of Rosia Montana, Abrud and Bucium awarded the design contracts and initiated the activities for updating the PUGs.

During 2012, RMGC obtained an extension to the validity of its urbanism certificate (UC-87) until April 2013. An urbanism certificate is an informational document issued by a local or county council and sets out the legal, technical and economic status of a particular parcel of land. On February 1, 2013, RMGC submitted documentation to Alba County Council for a new urbanism certificate.

Litigation

Over the years certain foreign and domestically-funded non-governmental organizations ("NGOs") have initiated a multitude of legal challenges against local, regional and national Romanian authorities that hold the administrative or regulatory authority to grant licenses, permits, authorizations and approvals for many aspects of the exploration and development of the Project. In general, these legal challenges claim that such authorities are acting in violation of the laws of Romania and seek suspension and/or cancellation of a particular license, authorization, permit or approval.

While a small number of these actions over many years have been successful, most have been, and continue to be, proved to be frivolous in the Romanian courts. Since early 2010, 18 court decisions (from 19 legal challenges to permitting, licencing and other Project matters) have been positive for the progress of the Project.

The Company, through RMGC, has intervened, or sought to intervene, in all material cases brought to date where it is judged that there is a need to ensure that the Romanian courts considering these actions are presented with a fair and balanced legal analysis as to why the various Romanian authorities' actions are in accordance with the relevant and applicable laws.

The publicly stated objective of the NGOs in initiating and maintaining these legal challenges is to use the Romanian court system not only to delay as much as possible, but to ultimately stop the development of the Project. There are a variety of procedural matters that allow the NGOs to raise pleas which create additional legal actions that are separate from, but related to the principal legal actions. Often an action will be taken by the NGOs on a particular issue in several different regional court jurisdictions, and such legal objection may be raised in separate cases seeking a suspension or cancellation of a particular license, permit or approval. These actions add significant delay, distraction and cost to the process of permitting the Project.

By way of example, since 2004, RMGC has obtained four separate urbanism certificates with respect to the Project and all four have been the subject of legal action by NGOs.

The latest urbanism certificate, UC-87, has also been the subject of a succession of legal challenges by NGOs who have sought its cancellation and suspension. To date, the Romanian courts have rejected all such challenges, with the most recent decision being delivered on October 15, 2012 when the Bucharest Court of Appeal irrevocably rejected a final appeal of two NGOs seeking the cancellation and suspension of UC-87.

Key developments in legal proceedings in the first three quarters of 2012 have been reported in the relevant MD&A for each quarter. During the fourth quarter of 2012 key developments included:

- A claim initiated by the Archaeological Restoration Association ("ARA") in the Alba Iulia Tribunal which sought to commence the procedure of classifying certain buildings in Rosia Montana as historical monuments was rejected at a hearing on February 3, 2012. This decision was appealed by the ARA, but such appeal was irrevocably rejected by the Alba Iulia Court of Appeal on October 3, 2012.

- An action commenced by two NGOs which sought the cancellation and suspension of UC-87 was dismissed by the Bucharest Tribunal on December 21, 2011. The NGOs appealed this decision, an appeal which was irrevocably rejected by the Bucharest Court of Appeal on October 15, 2012.

- An action initiated by two NGOs, which sought to compel the Alba County Authority for Culture and Patrimony to disclose the entire documentation submitted by RMGC in respect of the application for the ADC issued in July 2011 for the Carnic open-pit, was dismissed by the Bucharest Tribunal at a hearing on December 20, 2012.

Upcoming court hearings in the first quarter of 2013 include:

- A claim initiated by two NGOs, seeking the cancellation of the Strategic Environmental Assessment endorsement ("SEA") to the Industrial Area PUZ, which was issued by the Regional Agency for Environmental Protection of Sibiu in March 2011, is scheduled to be heard by the Cluj Tribunal on March 15, 2013.

- An action filed by three NGOs for the cancellation of the ADC for the Carnic open-pit is scheduled to be heard by the Cluj Tribunal on March 18, 2013.

- The next hearing of a claim brought by the same three NGOs in the Cluj Tribunal seeking the suspension of the ADC for the Carnic open-pit is scheduled to be heard on April 5, 2013.

- An action before the Bucharest Tribunal, pursuant to which an NGO is seeking disclosure of certain documents pertaining to the Rosia Montana exploitation license, is scheduled to be heard on March 22, 2013.

- Two NGOs have also initiated proceedings before the Bucharest Tribunal seeking the cancellation and suspension of the ADC for Carnic, the first hearing of which is scheduled for April 1, 2013.

In addition, a further hearing in respect of the outstanding legal challenge originally commenced by RMGC in November 2007 to compel the MoE to resume the EIA review took place on January 14, 2013. By way of background to this case, RMGC's original legal claim against the MoE was rejected by the Bucharest Court of Appeal on July 1, 2009. RMGC subsequently appealed this decision before the High Court of Cassation and Justice which, on June 19, 2012, quashed the prior decision of the Bucharest Court of Appeal. The High Court of Cassation and Justice ordered that the file should be returned to the Bucharest Court of Appeal to be reheard on its merits. Upon the action being returned to the Bucharest Court of Appeal, the Court itself raised the question of whether the claim should be discontinued as a whole due to a lack of interest based on the fact that the EIA review process had reconvened in 2010. RMGC and the MoE informed the Court that they considered the action should be discontinued on such grounds and, at a hearing on January 14, 2013 the Bucharest Court of Appeal admitted a motion of lack of interest. Accordingly, the actions against the MoE and its former officials have been discontinued.

Furthermore, a case brought by RMGC to recover approximately 12.7m RON ($3.9m) in taxes penalties and interest paid over the period January 2005 to June 2007 was resolved in RMGC's favor by the Bucharest Court of Appeal on May 10, 2011. The Romanian fiscal authorities submitted an appeal against this decision to the High Court of Cassation and Justice, an appeal which was irrevocably rejected by the High Court on March 13, 2013.

Due to the inherent uncertainties of the judicial process, the Company is unable to predict the ultimate outcome or impact, if any, with respect to matters challenged in the Romanian courts. In all circumstances, the Company and/or RMGC will vigorously maintain its legal rights and will continue to work with local, county and federal authorities to ensure the Project receives a fair and timely evaluation in accordance with Romanian and EU laws. However, there can be no assurance that the Company and/or RMGC will prevail in these matters. If any claims are not resolved in the Company's or RMGC's favor, then such a negative ruling may have a material adverse effect on the timing and/or outcome of the permitting process for the Project and the Company's financial condition. The implications of a negative court ruling will only be known once such a decision is issued formally by the relevant Court and the position of the Government is assessed.

While the Company has designed the Project to follow all applicable laws to protect against permitting delays, legal challenges brought forward by NGOs or other parties – those currently ongoing and those that may be introduced in the future – have the potential to cause significant delays to the Project timeline.

Surface Rights

As a result of the suspension of the EIA review process in September 2007, the formal surface rights purchase program at the Rosia Montana site was suspended in February 2008. The Company owns approximately 78% of the homes and approximately 60% of the land by area in the Project footprint, comprising the industrial zone, the protected area and the buffer zone.

In addition to the remaining private properties yet to be acquired, the Company needs to acquire properties (approximately 16% of the surface area of the Project) which are owned by institutions, including the local administrations of Rosia Montana and Abrud, as well as state-owned mining companies. RMGC continues to implement a comprehensive community relations program in Rosia Montana and to engage in Project related discussions with past and current regional homeowners. Negotiations have been initiated with various institutions to acquire the institutional properties and this process is expected to be completed after the approval of the EP.

Ultimately, the Company's ability to obtain construction permits for the mine and plant is predicated on securing all necessary surface rights within the Project footprint, the attainment and timing of which is subject to third party actions and a number of risk factors which are not within the Company's control.

Resettlement Sites

Construction of 125 homes in the Alba Iulia resettlement site, known as Recea, was completed in 2010 and all but one of these homes are now occupied by resettled families.

In late 2011, the Company commenced the construction of twelve new houses at Recea, three of which are complete and nine of which are expected to be completed during 2013. In preparation for the future expansion of Recea, certain civil works and additional services / utilities infrastructure were completed during 2012. A definitive review of the Recea expansion project is ongoing.

In 2012, the Company substantially completed the construction of a church and associated annexes at Recea.

Work has been ongoing to review plans for a further resettlement village to be built close to Rosia Montana for the remaining homeowners who have chosen, or may choose, to be resettled in the Rosia Montana area.

All these initiatives stand as a visible testimony to the determination of the Company to deliver on its promises to the people of Rosia Montana.

Archaeology and Preservation of Cultural Heritage

An archaeological review of the historical mining activity at Rosia Montana is a critical step in the granting of the construction permits to build the Project. A number of archaeological discharge certificates are required for various parts of the proposed Project footprint. In order to obtain such discharge certificates, the Company must conduct an extensive program of exploratory and preventative archaeology in order to ensure that valuable historical relics in the area are uncovered and preserved.

On July 14, 2011 the Alba County Directorate for Culture and National Patrimony issued a new ADC to RMGC for the Carnic open-pit, which complements those it already holds for the Cetate and Jig open-pits. In order to end the protective archaeological regime covering the proposed site of the Carnic pit, RMGC awaits formal confirmation that the Carnic massif has been removed from the List of Historical Monuments by the Ministry of Culture.

The Company has continued maintenance work on 160 houses located in the historical center of the village of Rosia Montana ("Protected Area"), with the aim of preventing their deterioration. During 2012, the restoration of sixteen of these houses has been completed and these are now in use. While these village houses are not designated as historic, the restoration will contribute to maintaining the character of the village. This is just one element of a significant amount that the Company intends to invest in local heritage and cultural aspects in and around Rosia Montana over all phases of the Project.

The Company is advancing a project to complete restoration of more than 110 houses located within the Protected Area, which will bring these back into functional use. To date, the design work and permitting has been completed, with the final stage for obtaining construction authorization yet to be initiated.

In addition, RMGC, in partnership with the local council of Rosia Montana, initiated the restoration of two iconic houses (the old school house and former town hall) in the Protected Area, along with the rehabilitation of a number of houses, which will be used for tourism initiatives. Subject to internal fit out, which has been placed on hold, the primary restoration of the former town hall was completed during 2012. Work on the old school house advanced to the stage of the building being secure and weather tight. Further restoration work has been put on hold until such time as the Government moves ahead with Project permitting.

With the ADC for Carnic issued, RMGC is continuing further detailed archaeological work in the old underground mining galleries that lie under the Protected Area. This work has focused on opening up previously unexplored Roman galleries and the commencement of archaeological rehabilitation work on underground development adits and old mining areas that have never been restored for public interest. These areas are being restored by RMGC and will serve as a permanent museum, a visible testimony to the 2,000 year mining history at Rosia Montana and an accessible example of historic mining activities for parties with interests in the regional mining sector. One such example is the Catalina Monulesti underground mining gallery which is in the process of being successfully restored and has been opened to the public. The Company has already hosted over one thousand visitors to the gallery, representing various stakeholder groups.

The Roman workings within the Protected Area are some of the most diverse and archeologically significant examples of Roman engineering discovered in the area to date. Though access to these Roman galleries remains difficult, RMGC has made substantial progress in putting in sufficient infrastructure to allow the public to share in Romania's rich cultural heritage for future generations. To date, the archaeological results are very promising identifying spectacular Roman mining galleries and related wooden artifacts. This is all part of the long term initiatives funded solely by RMGC in the Protected Area.

Corporate and Social Responsibility (CSR)

The Company takes pride in its commitment to achieving the highest levels of sustainability from workplace safety to community and environmental responsibility. The Company invests significant resources into its CSR programs, which in Romania is a multi-dimensional commitment managed by RMGC and covering employee training and safety, local communities, living traditions, direct and indirect social impacts, educational programs, environmental protection, community sponsorship and heritage aspects.

One of RMGC's core commitments is to develop local employment, local supply and a strategy for local economy diversification during the life of the Project and beyond, evidenced through:

- Local employment – RMGC currently employs approximately 500 people directly and numerous others indirectly, with some 85% hired from the local community. The Company is investing in training and skills assessments for the construction phase of the Project; and
- Local supply - more than 600 local firms are suppliers / contractors to RMGC.

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2012 amounted to $79.0 million.

During the year ended December 31, 2012 the Company issued 0.9 million common shares on the exercise of stock options for aggregate gross proceeds of approximately $2.7 million. Excluding the impact of funds received by the Company through the exercise of stock options and realized foreign exchange translation differences, the Company's average monthly net cash usage throughout 2012 has been $4.9 million (2011: $5.5 million).

The Company has been implementing its plans, initiated in May 2012, to reduce substantially monthly costs until such time as the Government moves ahead with Project permitting. As a result, average monthly net cash usage of $6.1 million in H1 2012 was reduced to $3.7 million in H2 2012. Notwithstanding, the Company incurred one-off costs in Q4 2012 on Referendum-related activities, including media and public relations, that totaled approximately $4.6 million, of which approximately $2.6 million was paid in Q4 2012 and the balance in Q1 2013. Excluding Referendum activities the H2 2012 monthly average net cash usage was $3.3 million.

NI 43-101 Technical Report

A new National Instrument 43-101 compliant Technical Report on the Rosia Montana Gold and Silver Project, Transylvania, Romania, effective as at October 1, 2012 (the "Technical Report") was filed on the SEDAR website (www.sedar.com) during Q4 2012, together with certification from SRK Consulting (UK) Ltd. ("SRK") and its Qualified Person, Dr. Mike Armitage, who authored the report.

The Technical Report was commissioned to reflect the current status of the Project and to present capital and operating costs and revenue projections updated from those published by the Company in March 2009 (the "2009 Report") within the context of the current environment for commodity, capital equipment and consumable prices. There was no material change to the Proven and Probable Mineral Reserve previously published in the 2009 Report as there has been no material change to the mining plan.

Audited Mineral Reserve Statement

Reserve Category	Tonnage (Mt)	Au Grade (g/t)	Ag Grade (g/t)	Au Metal (Moz)	Ag Metal (Moz)
Proven	112.5	1.63	9.01	5.9	32.6
Probable	102.5	1.27	4.55	4.2	15.0
Total	**214.9**	**1.46**	**6.88**	**10.1**	**47.6**

The annual production of the Project estimated in the 2009 Report is materially unchanged at an average of approximately 610,000 ounces of gold and 2.6 million ounces of silver during its first five years of operation and an average of approximately 485,000 ounces of gold and 1.7 million ounces of silver over the 16 year life-of-mine ("LoM").

SRK's audited Mineral Resource statement, summarised below, reports Mineral Resources at a cut-off of 0.4 g/t Au (as opposed to 0.6 g/t Au used by RSG Global in the 2009 Report) to reflect the fact that at current gold prices this material has potential to be economic.

Summary Audited Mineral Resource Statement at a 0.4 g/t Au cut-off

Resource Category	Tonnage (Mt)	Au Grade (g/t)	Ag Grade (g/t)	Au Metal (Koz)	Ag Metal (Koz)
Measured	171.5	1.32	8	7,260	43,160
Indicated	341.2	0.90	3	9,890	37,960
Measured and Indicated	**512.7**	**1.04**	**5**	**17,142**	**81,117**
Inferred	44.8	0.98	3	1,420	4,100

Updated Capital and Operating Costs

The initial and sustaining capital costs for the Project estimated in the 2009 Report have been updated for the purposes of the Technical Report as at Q3 2012. These updated estimates are a combination of first principle estimates, quotes and escalations of previous estimates. Overall the initial capital cost has increased from US$876 million in the 2009 Report to US$1.4 billion and the sustaining capital costs increased from US$366 million in the 2009 Report to US$571 million.

Operating costs have been estimated in accordance with standard industry practices and are valid as at Q3 2012. In summary, operating cash costs (including refining, transport, treatment and a 4% state royalty) equate to some US$16.97 per tonne of ore processed, equivalent to US$399 per ounce of gold produced over the LoM.

Economic Analysis

The economic analysis presented by SRK in the Technical Report, which is based on the business plan for the Project provided by the Company that considers the Proven and Probable Mineral Reserve planned to be mined and processed over a 16 year period at the Project derived the following key post-tax, pre-finance LoM results at a gold price of US$1,200/oz and silver price of US$20/oz:

- Undiscounted cash flow of US$3.6 billion;
- NPV at a 10% discount rate of US$865 million;
- IRR of 19.6%; and
- Payback of initial capital outlay in Year 4 of production.

SRK further reports that, assuming a spot price of US$1,800/oz for gold and US$35/oz for silver in the economic analysis, the operating cash cost, net of silver credits reduces to US$371/oz. On the same basis, the following key post-tax, pre-finance LoM results are reported:

- Undiscounted cashflow of US$7.7 billion;
- NPV at a 10% discount rate of US$2.5 billion;
- IRR of 32.5%; and
- Payback of initial capital outlay in Year 2 of production.

Including estimated interest, financing and corporate costs the Company estimates the capital required to bring the Project into production and to a position of positive cash flow is approximately US$1.54 billion, an increase of US$540 million over the previous financing cost announced in the 2009 Report.

Qualified Person

The Technical Report was authored by Dr. Mike Armitage FGS, C.Geol, MIMMM, CEng of independent consultants, SRK. Dr. Armitage is a Qualified Person for the purposes of the Technical Report, under the standards set forth by National Instrument 43-101 "Standards of Disclosure for Mineral Projects", of the Canadian Securities Administrators. The Mineral Resources and Mineral Reserve statements in the Technical Report are reported in accordance with CIM Standards. Dr. Armitage has consented to the public filing of the Technical Report and has reviewed and approved the extracts of, or summary from, the Technical Report within this Management's Discussion and Analysis, as applicable.

Project Timeline

Management continues to be of the view that, once the EP for the Project is issued by the Government, in the absence of any other extraordinary or unforeseen events, legal or otherwise, it would take approximately one year to:

- Complete the necessary outstanding surface rights acquisitions;
- Receive the majority of other permits and approvals, including for initial construction; and
- Proceed to fully finance construction of a mine at Rosia Montana.

Once construction of the mine begins, it is estimated to take approximately 30 months to complete. Ultimately, the Government determines the timing of the EP issuance and all other permits and approvals required for the Project, subject to the Romanian courts dealing with litigation from NGOs and any other parties in a timely manner.

Outlook

The Company’s key objectives in the short term include to:

- Operate on a reduced cost basis until such time as the Government moves ahead with Project permitting;
- Continue efforts to increase the Romanian public and Government awareness of the Project benefits, both economic and otherwise, and widespread support for the permitting of the Project (as demonstrated by the recent Referendum);
- Obtain approval of the EP and all other required permits that allow construction activities to commence;
- Maximize shareholder value, while optimizing benefits of the Project to those in the community and the surrounding area.

Annual Summary

The annual summary is set out in the following table, which has been prepared in accordance with IFRS.

in thousands of Canadian dollars, except per share amounts	**2012**	2011	2010
Operating loss	**$ 11,411**	$ 18,894	$ 15,290
Other expenses / (income)	**30**	(2,207)	15,454
Loss	**11,441**	16,687	23,819
Loss per share (basic and diluted)	**0.03**	0.05	0.07
Total assets	**602,686**	619,294	539,170
Non-current liabilities	**2,624**	4,301	3,615
Investment in exploration and development including working capital changes	**47,028**	53,279	41,293
Cash flows from financing activities	**$ 2,695**	$ 79,872	$ 19,339

Results of operations

Operating loss in 2012 was $7.5 million lower than 2011 due to lower stock-based compensation expensing ($4.8 million lower year-on-year) and corporate, general and administrative ($2.7 million lower year-on-year). In 2011 corporate, general and administrative included costs associated with the incorporation and start-up of the UK based management services company, and the associated departure costs of the then remaining Canadian based employees.

Other expenses / (income) include interest income and foreign exchange gains and losses. During the first three quarters of 2012, there was an underlying weakening of the Euro ("€") against the $, which partially reversed during the final quarter. During 2012 the Company fully utilized its € treasury balances and recorded foreign exchange losses, in contrast to gains attained in 2011. The US dollar and the € also weakened against the $ in 2010, which combined with significantly higher US dollar and € treasury balances accounts for the larger foreign exchange loss reported in 2010.

The loss for 2012 is $5.3 million lower than the loss incurred in 2011, primarily due to the lower stock-based compensation expensing and reduced corporate, general and administrative costs. The loss for 2011 was $7.1 million lower than the loss incurred in 2010, primarily due to a positive variance of $17.2 million in foreign currency movements, offset by higher total expenses of $3.6 million, and a 2010 income tax recovery of $6.9 million.

Total assets

Total assets reduced $16.6 million year-on-year having increased by $80.1 million from 2010 to 2011. The reduction in 2012 relates mainly to a currency translation adjustment of $11.5 million arising from the translation of foreign denominated assets and $6.7 million of cash utilized in operating activities, offset by cash received on the exercise of stock options. The increase in 2011 was largely due to the BSG warrant exercise which realized proceeds of $75 million.

Non-current liabilities

Non-current liabilities are comprised of an accrual for long service awards of $2.6 million (2011: $1.9 million, 2010: $2.2 million) for Romanian employees, pursuant to a collective bargaining agreement. Additionally, in the prior year, non-current liabilities included the issuance of Deferred and Restricted Share Units ("DSUs / RSUs") to directors and officers of the Company (2011: $2.5 million, 2010: $1.4 million) , but for 2012 these liabilities are recorded as current liabilities.

Investment in exploration and development

The lower expenditure in 2012 compared to 2011 reflects the strategic reduction of activity in the period leading up to the Romanian national elections held in December 2012, although certain additional costs were incurred in Q4 on Referendum activities. Lower expenditure consisted mainly of a reduction in media and communication activities.

The higher expenditure in 2011 compared to 2010 reflected increased Company activities supporting the advancement of the permitting process, specifically relating to external communications, public and Government relations, resettlement site construction costs and further Project engineering and planning work.

Cash flows from financing activities

$2.7 million was received from proceeds of the exercise of stock options (2011: $4.9 million; 2010: $19.3 million).

The gross proceeds from the BSG warrant exercise in 2011 amounted to $75 million.

Results of Operations

The results of operations are summarized in the following tables, which have been prepared in accordance with IFRS:

in thousands of Canadian dollars, except per share amounts	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Statement of Loss				
Loss	$ 2,530	$ 3,661	$ 2,683	$ 2,567
Loss per share - basic and diluted	0.01	0.01	0.01	0.00
Statement of Financial Position				
Working capital	65,948	80,233	90,454	106,575
Total assets	602,686	577,507	593,256	616,971
Statement of Cash Flows				
Investments in development and exploration including working capital changes	10,514	8,460	13,152	14,902
Cash flow from financing activities	732	-	460	1,503

in thousands of Canadian dollars, except per share amounts	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Statement of Loss				
Loss	$ 8,411	$ 3,640	$ 3,534	$ 1,102
Loss per share - basic and diluted	0.03	0.01	0.01	0.00
Statement of Financial Position				
Working capital	120,725	148,588	166,543	102,720
Total assets	619,294	629,951	631,720	554,345
Statement of Cash Flows				
Investments in development and exploration including working capital changes	14,771	16,892	13,021	8,595
Cash flow from financing activities	197	1,261	77,629	785

Statement of Loss

	3 months ended December 31		**12 months ended December 31**	
in thousands of Canadian dollars, except per share amounts	**2012**	2011	**2012**	2011
Operating loss for the period	**$ 2,536**	$ 5,018	**$ 11,411**	$ 18,894
Loss for the period	**2,530**	8,411	**11,441**	16,687
Loss per share - basic and diluted	**0.01**	0.03	**0.03**	0.05

Operating loss for the three and twelve-month periods ended December 31, 2012 decreased from the corresponding periods in 2011. The decrease was mainly due to lower stock-based compensation expense, reflecting permitting delays which have extended the estimated vesting periods of certain performance based option grants, and a credit to DSU expenses in the year as a result of the Company's lower share price period-on-period. Furthermore, non-recurring 2011 costs associated with both the non-renewal of the Baisoara exploration license and termination payments to former Company staff also contributed to the decrease.

The loss for the three and twelve-month periods ended December 31, 2012 is lower than the loss in the same periods in 2011, despite an adverse variance period-on-period of $2.2 million in foreign currency exchange movements, the latter reflecting the current economic and currency weakness generally in the Eurozone and in Romania in particular.

The Company expects to incur operating losses until commercial production of the Project commences and revenues are generated.

Expenses

Corporate, General and Administrative

	3 months ended December 31		12 months ended December 31	
in thousands of Canadian dollars	**2012**	2011	**2012**	2011
Finance	**$ 243**	$ 332	**$ 845**	$ 1,405
External communications	**41**	106	**$ 318**	428
Information technology	**27**	19	**$ 70**	96
Legal	**72**	232	**$ 528**	776
Payroll	**1,262**	1,464	**$ 3,326**	3,583
Other	**(561)**	992	**$ 919**	2,421
Corporate, general and administrative expense	**$ 1,084**	$ 3,145	**$ 6,006**	$ 8,709

Corporate, general and administrative costs are those costs incurred by the management services operation in London, UK and at the Canadian parent.

Finance costs for the three and twelve-month periods ended December 31, 2012 decreased from the corresponding periods in 2011. The decrease is a combination of a management decision to reduce corporate expenditure in 2012 and the 2011 costs including one-off activities such as the finalization and termination of former consultancy agreements, the appointment of a new CFO and CCO and also certain termination payments made to former Company staff.

The costs associated with the non-renewal of the Baisoara exploration license, which expired in 2011, are included in 'Other' costs for the twelve-month period ended December 31, 2011. The negative 'Other' costs for the three-month period ended December 31, 2012 is a result of certain year-end adjustments to prior quarter estimates in 2012.

Corporate, general and administrative costs are anticipated to increase once the Project is awarded the EP and the Company increases its resources for construction and operating activities.

Stock Based Compensation

in thousands of Canadian dollars	3 months ended December 31 **2012**	3 months ended December 31 2011	12 months ended December 31 **2012**	12 months ended December 31 2011
DSUs and RSU's - expensed	**$ 339**	$ 507	**$ (1,033)**	$ 1,085
Stock option compensation - expensed	**1,071**	1,320	**6,205**	8,909
Stock based compensation - expensed	**$ 1,410**	$ 1,827	**$ 5,172**	$ 9,994
Stock option compensation - capitalized	**$ 1,004**	$ 930	**$ 4,888**	$ 10,762
DSU Compensation				
Number of DSUs issued	**-**	-	**42,436**	90,328
Average value ascribed to each DSU issued	**$ -**	$ -	**$ 2.59**	$ 7.93
RSU Compensation				
Number of RSUs issued	**-**	-	**76,258**	-
Average value ascribed to each RSU issued	**$ -**	$ -	**$ 5.77**	$ -

Initially valued at the five-day weighted average market price of the Company's shares at date of issue, vested DSUs and RSUs are revalued each period end based on the closing share price at the period end. The effect on the valuation of DSUs and RSUs of the period-on-period change in share price is charged to the Statement of Loss or capitalized for share units granted to personnel working on development projects. At December 31, 2012 the Company's share price was $2.36, compared to $2.09 at September 30, 2012 and $6.28 at December 31, 2011, giving rise to the expense for the three month period, but a significant reversal overall for DSUs and RSUs for the twelve-month period ended December 31, 2012.

DSUs issued during the twelve-month period ended December 31, 2012 were to certain directors, at their election, in lieu of their quarterly directors fees. RSUs were issued during the twelve-month period ended December 31, 2012 to the CEO, CFO and CCO as a component of their 2011 compensation.

The estimated fair value of stock options is amortized over the period over which the options vest, which is normally three years. For performance options the fair value is expensed over the estimated vesting period from the time of grant. Once the performance conditions have been attained, which may result in the full vesting of the options, the remaining fair value, if any, is either expensed immediately or over the remaining vesting period, as appropriate. The expected performance dates are periodically reviewed and the expensing adjusted accordingly. The fair value of stock options granted to personnel working on development projects is capitalized over the vesting period.

The reduction of stock option compensation expensed and capitalized during the three and twelve-month period ended December 31, 2012 compared to the prior period is as a result of delayed management expectations, given the lack of progress in permitting of the Project in 2012, of the attainment of performance conditions for performance based options, as well as a number of historic option grants reaching full amortization.

	3 months ended December 31		12 months ended December 31	
	2012	2011	**2012**	2011
Stock option compensation				
Number of stock options granted	**-**	50,000	**3,818,333**	1,975,000
Average value ascribed to each regular vesting option granted	**$ -**	$ 5.81	**$ 4.09**	$ 7.44
Options granted to corporate employees, consultants, officers, and directors	**-**	50,000	**2,215,833**	1,800,000
Options granted to development project employees and consultants	**-**	-	**1,602,500**	175,000

All stock options granted during the twelve-month period ended December 31, 2012 vest over a three-year period.

Interest Income

	3 months ended December 31		12 months ended December 31	
in thousands of Canadian dollars	**2012**	2011	**2012**	2011
Interest income	**$ 101**	$ 194	**$ 842**	$ 877

Lower interest income in the three and twelve-month periods ended December 31, 2012 compared to the same period in 2011 is largely the result of lower holdings of cash and cash equivalents (December 31, 2012: $79.0 million; December 31, 2011: $135.5 million).

As at December 31, 2012 approximately 89% of the Company's cash and cash equivalents were invested in Canadian government guaranteed instruments with 8% held as cash deposits with major Canadian banks and the remaining 3% held in recognised UK and Romanian banks.

Foreign Exchange

	3 months ended December 31		12 months ended December 31	
in thousands of Canadian dollars	**2012**	2011	**2012**	2011
Foreign exchange (loss) / gain - realized	**$ (917)**	$ 2,447	**$ (946)**	$ 2,301
Foreign exchange gain / (loss) - unrealized	**822**	(5,749)	**74**	(971)
Total foreign exchange (loss) /gain	**$ (95)**	$ (3,302)	**$ (872)**	$ 1,330

During 2011, the Company liquidated its holdings of Euro denominated short-term investments. Currency movements previously experienced on those investments are no longer incurred.

In light of Euro instability, the Company had a strategy to reduce its Euro cash holding exposure, which it achieved during 2012. The realized foreign exchange loss in the twelve-month period to December 31, 2012 was due to Euro weakness against the Canadian Dollar.

The Company expects to report reduced foreign currency gains and losses as a result of reduced exposure to non-Canadian and US Dollar currencies (2012: 3%; 2011: 29%).

Taxes

All tax assessments have been paid and provided for in the respective individual company's financial statements.

Investing Activities

The most significant ongoing investing activities are in respect of the Project. Most of the expenditures to date have been for identifying and defining the size of the four ore bodies, for engineering to design the size and scope of the Project, for environmental assessment and permitting, social support to local communities, communications and public relations activities to support the permitting process, archeological and rehabilitation work to buildings, as well as surface rights/property acquisition. Once the construction permits are received, the nature and magnitude of the expenditures will increase, as roads, production facilities, open pits, tailings management facilities and associated infrastructure are built.

The multiple changes in Governments in Romania during 2012, and consequential delays in Project permitting, have resulted in management seeking to actively reduce expenditure to preserve capital. This strategy generated cost savings during the year, although in Q4 the level of activity and expenditure increased in response to the December 2012 Referendum.

Mineral Properties

All costs incurred in Romania related to development and exploration of the Project are capitalized to mineral properties and those related to the Bucium project are expensed in accordance with IFRS until such time as economic feasibility is established.

	3 months ended December 31		12 months ended December 31	
in thousands of Canadian dollars	**2012**	2011	**2012**	2011
Finance and administration	**$ 2,977**	$ 1,870	**$ 7,327**	$ 8,616
External communications	**3,435**	8,030	**13,028**	19,076
Legal	**1,711**	2,050	**5,360**	7,122
Permitting	**720**	1,446	**4,592**	4,816
Community development	**1,825**	2,248	**6,150**	6,865
Project management and engineering	**1,015**	2,065	**7,381**	8,213
Exploration - Rosia Montana	**914**	451	**1,862**	869
Total exploration and development expenditures	**$ 12,597**	$ 18,160	**$ 45,700**	$ 55,577
Capitalized depreciation and disposals	**$ 117**	$ 97	**$ 385**	$ 293
Capitalized stock based compensation	**$ 1,004**	$ 930	**$ 4,888**	$ 10,762
Movement in resettlement liabilities	**$ (9)**	$ 218	**$ (307)**	$ 121

The decrease in all categories of exploration and development expenditures during the three and twelve-month periods ended December 31, 2012, with the exception of exploration costs, is largely due to the cost reduction strategy implemented in 2012. Media and communications expenditure has been subject to the most significant reduction year-on-year, with high levels of activity in 2011 in support of progress in Project permitting.

The Company has continued with community development activities in line with its commitment to sustainable development, legal activities in defending the Company's position in numerous legal challenges and essential activities related to maintaining the licenses and permits that it currently holds.

Exploration costs increased at Rosia Montana during the twelve-month period ended December 31, 2012 compared to the same period in 2011 due to additional geotechnical drilling as part of additional engineering work related to the Technical Report. No additional work is planned on the Bucium property until the exploration license is converted into two exploitation licenses. The Government has indicated that a decision on the conversion of the Bucium exploration to exploitation licenses will not be made until after a decision on the EP for the Project is made.

Purchase of Capital Assets

		3 months ended December 31				**12 months ended December 31**		
in thousands of Canadian dollars		**2012**		2011		**2012**		2011
Resettlement site development costs and assets under construction	**$**	**(2,490)**	$	2,742	**$**	**1,939**	$	3,273
Investment in long-lead-time equipment		**-**		-		**(355)**		532
Other		**3,322**		352		**3,812**		1,616
Total investment in capital assets	**$**	**832**	$	3,094	**$**	**5,396**	$	5,421
Depreciation and disposal - expensed	**$**	**42**	$	46	**$**	**233**	$	191
Depreciation and disposal - capitalized to mineral properties	**$**	**101**	$	90	**$**	**376**	$	295

The resettlement site development costs for the twelve-month period ended December 31, 2012 relate mainly to the additional houses at the Recea resettlement site. The significant reversal in the three-month period ended December 31, 2012 is largely in respect of refurbishment expenditures on the former town hall at Rosia Montana and a pilot plant for treating acid rock drainage which were both completed during the quarter. Since both assets are ready for use, they have been transferred into 'Other' assets in the table above.

Credits to long-lead equipment represent settlement of warranty claims with manufacturers where equipment remediation costs had previously been capitalized.

Cash Flow Statement

Liquidity and Capital Resources

The main sources of liquidity are the Company's cash and cash equivalents, stock option exercises and the equity and debt markets. As at December 31, 2012, cash and cash equivalents were $79.0 million compared to $135.5 million at December 31, 2011.

In light of the Euro's instability, the Company had adopted a strategy of reducing Euro balances through operational expenditure in preference to US and Canadian dollar holdings. Euro holdings were fully depleted during the year.

Working Capital

As at December 31, 2012, the Company had working capital, calculated as total current assets less total current liabilities, of $65.9 million (December 31, 2011: $120.7 million). The reduction in working capital during the twelve-month period ended December 31, 2012 relates mainly to expenditure on the Project.

As at December 31, 2012, the Company had current liabilities of $15.7 million (2011: $21.5 million). The period-on-period decrease in current liabilities relates largely to a reduction of trade and other payables as a consequence of the business strategy to reduce expenditure to preserve capital while the Project experiences permitting delays.

Decrease in short-term investments and restricted cash

The Company divested of the remainder of its short-term investments during 2011, generating cash of $94.9 million.

Related Party Transactions

During 2011 the Company acquired an additional 0.23% equity in RMGC. The Company paid net consideration of US$1.1 million for the acquisition.

The Company advanced loans in 2004 and 2009 in aggregate totaling US$39.5 million to Minvest, the non-controlling shareholder, to facilitate various statutory share capital increases in RMGC. The balance on the two loans outstanding to Minvest at December 31, 2012 was US$39.5 million (2011: US$39.5 million).

The above loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans are accounted for as part of the Group's net investment in RMGC and have, accordingly, been set off against non-controlling interests on the Statement of Financial Position until such time as the repayment of the loans is more certain. Once there is certainty that the loans will be repaid, the loans and non-controlling interest component will be reflected individually on the Statement of Financial Position, in accordance with IFRS.

Resettlement Liabilities

RMGC had a program for purchasing homes in the Project area, which was suspended in February 2008 due to the suspension of the EIA review process in September 2007. Under the resettlement program residents were offered two choices. They could either choose to take the sale proceeds and move to a new location of their choosing or they could exchange their properties for a new property to be built by RMGC at one of the designated resettlement sites. For those residents who choose the resettlement option, the Company increases its mineral properties on the balance sheet as well as resettlement liabilities for the anticipated construction costs of the resettlement houses. As the construction takes place, the costs of newly built houses are capitalized as construction in progress. After the transfer of legal title of the property RMGC reduces the amounts capitalized as construction in progress and at the same time reduces its resettlement liabilities. All resettlement associated costs will remain capitalized in mineral properties and amortized over the life of the mine once the Project moves into production.

At December 31, 2012 the Company had accrued resettlement liabilities totaling $4.3 million (December 31, 2011: $4.6 million), which represents both the cost of building the remaining new homes for the local residents and outstanding delay penalties.

The remaining 24 homeowners who chose to resettle within Rosia Montana signed three year extension contracts which expire at the end of May 2013. As a result of the delay in delivery of these homes, RMGC pays a penalty of up to 20% of the agreed upon unpaid property value per year of delay as required by the agreement.

At December 31, 2012 the Company has accrued $0.4 million (2011: $0.4 million) representing unpaid delay penalties. During the twelve-month period ended December 31, 2012 the Company paid delay penalties of $0.2 million (2011: $0.2 million).

Contractual Obligations

The following is a summary of the Company's contractual capital and operating lease commitments, as of December 31, 2012 including payments due for each of the next five years and thereafter:

in thousands of Canadian dollars	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Capital commitments							
Resettlement	802	664	51	76	11	-	-
Operating lease commitments							
Rosia Montana exploitation license	890	178	178	178	178	178	-
Surface concession rights	757	20	20	20	20	20	657
Property lease agreements	1,390	485	289	274	274	68	-
Total commitments	3,839	1,347	538	548	483	266	657

The Company and its subsidiaries have a number of agreements with arms-length third parties who provide a wide range of goods and services. Typically, the service agreements are for a term of not more than one year and permit either party to terminate for convenience on notice periods ranging from 15 to 90 days. Upon termination, the Company has to pay for services rendered and costs incurred to the date of termination. In line with the Company's current cost reduction strategy, a number of such service agreements have been reduced or terminated during the twelve-month period ended December 31, 2012.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the reporting period. Significant estimates and assumptions include those related to going concern, the recoverability of mineral properties, benefits of future income tax assets, estimated useful lives of capital assets, valuation of stock based compensation, valuation of fidelity bonus and other benefits assumptions and determinations as to whether costs are expensed or deferred. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. The critical accounting estimates are not significantly different from those reported in previous periods.

Going Concern

The underlying value of the Company's mineral properties is dependent upon the existence, and economic recovery, of mineral reserves in the future and the ability of the Company to obtain all necessary permits and raise long-term financing to complete the development of the properties. In addition, the Project may be subject to sovereign risk, including political and economic instability, changes in existing government regulations, for example, a ban on the use of cyanide in mining, re-designation of the Project area as an archeological site of national importance, government imposed changes to royalty levels or ownership participation, government regulations relating to mining which may withhold the receipt of required permits or impede the Company's ability to acquire the necessary surface rights, as well as currency fluctuations and local inflation. On September 17, 2010 the Ministry of the Environment and Sustainable Development restarted the EIA review process. During 2011 the TAC met on several occasions to further its deliberations. There have been no further TAC meetings in 2012 and to date the TAC has not concluded on its activities.

The base budget and forecast for 2013 for the Project includes only those expenditures and commitments to maintain the value of the Company's investment in mineral properties and to move the Project through EIA approval. Once the EIA is approved, the cost for the acquisition of remaining surface rights, completion of the engineering control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits will exceed the Company's current cash and cash equivalents holdings. As at December 31, 2012 the Company had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

Recoverability of mineral properties

The Company has determined that the area covered by the Rosia Montana exploitation license contains economically recoverable reserves. The ultimate recoverability of the $467.2 million carrying value at December 31, 2012 plus related capital assets is dependent upon the Company's ability to obtain the necessary permits and financing to complete the development and commence profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis.

As part of management's periodic review process, management reviews all aspects of Project advancement issues along with potential indicators of asset impairment when preparing financial statements. When impairment indicators are identified, it is management's policy to perform an impairment test in accordance with IAS 36 – Impairment of Assets. The impairment test is, at a minimum, performed annually.

IFRS 6 permits all exploration costs, incurred before a company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, to be expensed in the year that they are incurred. Management has determined that under IFRS the Group's accounting policy for exploration and evaluation assets is that exploration expenditures should be expensed and only capitalized to Mineral Properties after the completion of a feasibility study.

Future income tax assets

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax assets are recognized to the extent that the recoverability of future income tax assets is considered probable.

The Company has subsidiaries in countries that have differing tax laws and rates, primarily Romania. The provision for income taxes is based on a number of estimates and assumptions made by management including its understanding of domestic and international tax rules. Advice is also sought from local professional tax advisors.

Tax authorities in Romania regularly initiate various tax audits to assess the appropriateness of the Company's tax filing positions. Regulators may interpret tax regulations differently than the Company, which may cause changes to the estimates made. The Company continues to vigorously pursue all tax claims which it believes are legally due.

All tax assessments which have been received have been paid and provided for in the financial statements.

Useful lives of capital assets

The Company's policy is to amortize capital assets over their useful lives once the assets are brought into production. Management assesses useful lives to ensure the useful lives of assets reflect the intended use of those assets.

Valuation of stock based compensation

The Company utilizes stock options, DSUs and RSUs as a means of compensation. Stock options are valued using a Black Scholes valuation model, and are amortized over the expected vesting periods. Management reviews the assumptions used in the Black Scholes valuation on an annual basis to ensure appropriateness. DSUs and RSUs are initially valued at the five-day weighted average market price of the Company's common shares preceding the date of issue, and are subsequently recalculated to fair value based on the quoted market value of the Company's common shares at the end of each reporting period.

Valuation of fidelity bonus and other benefits

Under a collective bargaining agreement between RMGC and its employees, under certain conditions employees of RMGC are entitled to a bonus based on years of uninterrupted service as well as other benefits relating to death and termination of employment. The obligation is determined using an actuarial basis and is affected by a number of assumptions and estimates. The actuarial valuation is performed annually, and management reviews the assumptions and estimates annually for appropriateness.

Financial instruments and other instruments

The recorded amounts for cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and other liabilities approximate fair values based on the nature of those instruments.

The Company's objective when managing capital is to safeguard its accumulated capital in order to fund development of the Project. The Company manages its capital structure and makes adjustments to it based on the level of funds on hand and anticipated future expenditures. Following the issuance of the EP the Company will initiate a review of its financing requirements over the short and medium term. While the Company expects that it will be able to obtain equity, long-term debt and/or project-based financing sufficient to build and operate the Project, there are no assurances that these initiatives will be successful. To safeguard capital the Company invests its surplus capital in highly liquid, highly rated financial institutions and instruments.

The Group's risk exposures and the impact on the Group's financial instruments are summarized below:

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents. The Group has adopted an investment strategy to minimize its credit risk by investing in Canadian sovereign debt with the balance of cash being invested on short-term overnight deposit with major Canadian banks.

The Group is exposed to the credit risk of domestic Romanian banks that hold and disburse cash on behalf of its Romanian subsidiaries. The Group manages its Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources at the corporate office and only transferring money to its Romanian subsidiary based on near term cash requirements, thereby mitigating exposure to domestic Romanian banks.

The Group holds small cash balances in the United Kingdom to fund corporate office activities.

The Group's credit risk is also attributable to value-added taxes receivable. Value-added taxes receivable are primarily collectable from the Romanian government, although RMGC is permitted in certain circumstances to offset certain RMGC payroll taxes against such recoverable value-added taxes.

Liquidity risk

The Group has sufficient funds as at December 31, 2012 to settle all current and long-term liabilities.

Market risk

(a) Interest rate risk

The Group has significant cash balances and no debt. The Group maintains a short-term investment horizon, typically less than 3 months, for its cash and cash equivalents, and therefore minimizes the risk of interest rate volatility at investment maturity. Where yields on investments less than 90 days are not significantly lower than investments greater than 90 days but less than one year, the Group has elected to utilize the shorter term investments.

With a short-term investment horizon and the intent to hold all investments until maturity, the Group is only marginally exposed to capital erosion should interest rates rise and cause fixed yield investments to devalue.

The Group's primary objective with respect to cash and cash equivalents is to mitigate credit risk. The Group has elected to forego yield in favor of capital preservation.

(b) Foreign currency risk

The Group's presentation currency is the Canadian dollar and its activities expose it to fluctuations in foreign exchange rates. The Group has monetary assets and liabilities denominated in Romanian Leu, US dollars, UK pounds sterling and Euros and is, therefore, subject to exchange variations against both the functional and presentation currency.

The Group maintains cash and cash equivalents in various currencies and is therefore susceptible to market volatility as foreign cash balances are revalued to the functional currency of the entity and thereafter to the presentation currency of the Group. Therefore, the Group may report foreign exchange gains or losses during periods of significant economic and market volatility. At December 31, 2012 the Group held 94% of its cash and cash equivalents in Canadian dollars.

The Company has not entered into any derivatives hedging activities.

Sensitivity

Based on management's knowledge and experience of the financial markets, the Company believes, based on its balance of cash and cash equivalents as at December 31, 2012 the following movements are "reasonably possible" over a twelve-month period:

- Cash and cash equivalents include deposits which are at floating interest rates. A plus or minus 1% change in earned interest rates in both cases would affect net income from deposits by less than $0.1 million.
- The Company holds balances, albeit minor, in foreign currencies and this gives rise to exposure to foreign exchange risk. As of December 31, 2012 a plus or minus 1% change in foreign exchange rates would affect net income by less than $0.1 million.

Risks

The following list details existing and future material risks to the business of the Group. The risks described below are not listed in any particular order and are not exhaustive. Additional risks and uncertainties not currently known to the Company, or those that it currently deems to be immaterial, may become material and adversely affect the Group's business. The realization of any of these risks may materially and adversely affect the Group's business, financial condition, results of operations and/or the market price of the Company's securities.

Each of these risk factors is discussed in more detail in the Company's Annual Information Form, which is filed for public inspection on www.sedar.com.

- Political and Economic Risks of Operating in Romania
- Permitting Process
- Acquisition of Surface Rights and Resettlement
- Mineral Tenure Rights
- Legal Proceedings
- Proposed Adverse Legislative Initiatives
- Tailings Incidents
- Closure of the State Run Mining Operations
- Compliance with Anti-Corruption Laws
- UNESCO World Heritage List
- Project Development
- Insurance and Uninsurable Risks
- Project Financing

- Global Economic Conditions
- Dilution
- Mineral Prices
- Currency Fluctuations
- Market Price Volatility
- Dependence on Management and Key Personnel
- Competition
- Enforcement of Civil Liabilities
- No History of Earnings or Dividends
- Mining Exploration and Development
- Mineral Reserve Estimates
- Environmental and other Regulatory Requirements
- Infrastructure
- Price Fluctuations of Consumed Commodities
- Accounting Policies and Internal Controls
- Conflict of Interest

CEO/CFO Certification

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the Company.

Our CEO and CFO certify that, as at December 31, 2012 the Company's DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They also certify that the Company's ICFR have been designed and operates effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The control framework the Company's CEO and CFO used to design the Company's ICFR is the Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

There is no limitation on scope of design as described in paragraph 5.3 of NI 52-109. There has been no change in the Company's ICFR that occurred during the year ended December 31, 2012 which has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

Outstanding Share Data

The Company's fully diluted share capital as at March 12, 2013 was:

	Outstanding
Common shares	380,540,190
Common stock options	27,347,838
Deferred share units - common shares	591,714
Restricted share units - common shares	50,839
Fully diluted share capital	**408,530,581**

Proven and Probable Mineral Reserves

The Company owns an 80.69% economic interest in the Project, which has aggregate proven and probable reserves as follows:

Reserve Category	Tonnage (Mt)	Au Grade (g/t)	Ag Grade (g/t)	Au Metal (Moz)	Ag Metal (Moz)
Proven	112.5	1.63	9.01	5.9	32.6
Probable	102.5	1.27	4.55	4.2	15.0
Total	**214.9**	**1.46**	**6.88**	**10.1**	**47.6**

Dr. Mike Armitage is the qualified person responsible for authoring the Technical Report from which the reserve estimate set forth in the table above has been extracted.

Forward-Looking Statements

Certain statements included herein, including capital costs estimates, sustaining capital and reclamation estimates, estimated production and total cash costs of production, future ability to finance the Project and other statements that express management's expectations or estimates regarding the timing of completion of various aspects of the Projects' development or of our future performance, constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities legislation. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule", and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. In particular, the MD&A includes many such forward-looking statements and such statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements and its forward-looking statements are not guarantees of future performance. These risks, uncertainties and other factors include, but are not limited to changes in the worldwide price of precious metals; fluctuations in exchange rates; legislative, political or economic developments; operating or technical difficulties in connection with exploration, development or mining; environmental risks; permitting risks; the speculative nature of gold exploration and development, including the risks of diminishing quantities or grades of reserves; and the Company's requirements for substantial additional funding. While Gabriel may elect to, Gabriel is under no obligation to and does not undertake to update this information at any particular time, except as required by law.

Gabriel Resources Ltd.

Consolidated Financial Statements

For the year ended December 31, 2012

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by the Company's management ("Management") in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and, where relevant, the choice of accounting principles. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, have conducted an audit in accordance with generally accepted auditing standards, and their report follows.

(Signed) *"Jonathan Henry"*

Jonathan Henry
President and Chief Executive Officer

(Signed) *"Max Vaughan"*

Max Vaughan
Chief Financial Officer

March 14, 2013

Consolidated Statement of Financial Position

As at December 31
(Expressed in thousands of Canadian dollars)

	Notes	2012	2011
Assets			
Current assets			
Cash and cash equivalents	7	**78,965**	135,466
Trade and other receivables	8	**1,745**	5,439
Prepaid expenses and supplies		**948**	1,349
Total current assets		**81,658**	142,254
Non-current assets			
Restricted cash	7	**175**	172
Property, plant and equipment	9	**53,647**	51,486
Mineral properties	10	**467,206**	425,382
Total non-current assets		**521,028**	477,040
TOTAL ASSETS		**602,686**	619,294
Liabilities			
Current liabilities			
Trade and other payables	11	**9,970**	16,915
Resettlement liabilities	13	**4,258**	4,565
Other liabilities	14	**1,482**	49
Total current liabilities		**15,710**	21,529
Non-current liabilities			
Other liabilities	14	**2,624**	4,301
Total non-current liabilities		**2,624**	4,301
TOTAL LIABILITIES		**18,334**	25,830
Equity attributable to owners of the parent			
Share capital	16	**859,782**	855,836
Contributed surplus		**52,813**	42,971
Currency translation adjustment		**(65,743)**	(54,284)
Accumulated deficit		**(262,500)**	(251,059)
TOTAL EQUITY		**584,352**	593,464
TOTAL EQUITY AND LIABILITIES		**602,686**	619,294

Approved by the Board of Directors

(Signed) *"Keith Hulley"*

Keith Hulley
Director

(Signed) *"David Peat"*

David Peat
Director

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

Consolidated Statement of Loss

For the year ended December 31

(*Expressed in thousands of Canadian dollars, except per share data)*

	Notes	**2012**	2011
Expenses			
Corporate, general and administrative		**6,006**	8,709
Share-based compensation	14,18	**5,172**	9,994
Depreciation		**233**	191
Operating loss		**11,411**	18,894
Other (income) / expense			
Interest received		**(842)**	(877)
Foreign exchange (gain) / loss		**872**	(1,330)
Loss for the year attributable to owners of the parent		**11,441**	16,687
Loss per share (basic and diluted)	24	**$ 0.03**	$ 0.05

Consolidated Statement of Comprehensive Loss

For the year ended December 31

(*Expressed in thousands of Canadian dollars)*

	2012	2011
Loss for the year	**11,441**	16,687
Other comprehensive loss		
Currency translation adjustment	**11,459**	9,408
Comprehensive loss for the year attributable to owners of the parent	**22,900**	26,095

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

Consolidated Statements of Changes in Shareholders’ Equity

For the year ended December 31
(Expressed in thousands of Canadian dollars)

	Notes	2012	2011
Common shares			
At January 1		**855,836**	761,943
Shares issued on the exercise of share options	18	**2,695**	4,872
Transfer from contributed surplus - exercise of share options		**1,251**	2,628
Shares issued on exercise of warrants	17	**-**	75,000
Transfer from common share purchase warrants	17	**-**	11,393
At December 31		**859,782**	855,836
Common share purchase warrants			
At January 1		**-**	11,393
Warrants exercised	17	**-**	(11,393)
At December 31		**-**	-
Contributed surplus			
At January 1		**42,971**	27,027
Share-based compensation		**11,093**	19,671
Exercise of share options		**(1,251)**	(2,628)
Purchase of non-controlling interest shares	15	**-**	(1,099)
At December 31		**52,813**	42,971
Currency translation adjustment ("CTA")			
At January 1		**(54,284)**	(44,876)
Currency translation adjustment		**(11,459)**	(9,408)
At December 31		**(65,743)**	(54,284)
Accumulated deficit			
At January 1		**(251,059)**	(234,372)
Loss for the year		**(11,441)**	(16,687)
At December 31		**(262,500)**	(251,059)
Total shareholders' equity at December 31		**584,352**	593,464

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended December 31
(Expressed in thousands of Canadian dollars)

	Notes	**2012**	2011
Cash flows used in operating activities			
Loss for the year		**(11,441)**	(16,687)
Items not affecting cash			
Depreciation		**233**	191
Share-based compensation		**5,172**	9,994
Unrealized foreign exchange gain		**(4)**	(987)
		(6,040)	(7,489)
Net changes in non-cash working capital	25	**(639)**	398
		(6,679)	(7,091)
Cash flows (used in) / provided by investing activities			
Decrease in short-term investments and restricted cash		**-**	94,918
Exploration and development expenditures	25	**(45,700)**	(55,577)
Purchase of capital assets		**(5,396)**	(5,421)
Purchase of non-controlling interest shares	15	**-**	(1,099)
Net changes in non-cash working capital	25	**(1,328)**	2,298
		(52,424)	35,119
Cash flows provided by financing activities			
Proceeds from the exercise of share purchase warrants		**-**	75,000
Proceeds from the exercise of share options		**2,695**	4,872
		2,695	79,872
(Decrease) / increase in cash and cash equivalents		**(56,408)**	107,900
Effect of foreign exchange on cash and cash equivalents		**(93)**	987
Cash and cash equivalents - beginning of year		**135,466**	26,579
Cash and cash equivalents - end of year	25	**78,965**	135,466

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations

Gabriel Resources Ltd. ("Gabriel" or the "Company") is a Toronto Stock Exchange listed Canadian resource company engaged in the exploration and development of mineral properties in Romania.

The Company is presently in the permitting stage and preparing to develop its majority-owned Rosia Montana gold and silver project (the "Project"). Rosia Montana Gold Corporation ("RMGC") is the beneficial owner of, and holds an exclusive exploitation license for the Project. Since acquiring the Project's exploitation license, the Company has been focused on identifying and defining the size of the four ore bodies, engineering to design the size and scope of the Project, environmental assessment and permitting, rescue archaeology and surface rights acquisitions.

The underlying value of the mineral properties of the Company and its subsidiary companies' (together the "Group") is dependent upon the existence and economic recovery of such reserves in the future and the ability of the Group to obtain all necessary permits and raise long-term financing to complete the development of the Project. In addition, the Project may be subject to sovereign risk, including political and economic instability, changes in existing fiscal regime, changes in existing government regulations, for example, an increase in royalty rates or state ownership applicable to the Project, a ban on the use of cyanide in mining, re-designation of the Project area as an archeological site of national importance, government regulations relating to mining which may withhold the receipt of required permits or impede the Group's ability to acquire the necessary surface rights, as well as currency fluctuations and local inflation. The suspension of the review of the Project's Environmental Impact Assessment ("EIA") by the Ministry of Environment in September 2007 (subsequently resumed in September 2010) and the multitude of legal challenges to permits issued in respect of the Project demonstrate the significant risks that the Project may face. Such risks may adversely affect the Group's ability to continue as a going concern and may result in the impairment or loss of all or part of the Group's assets.

These consolidated financial statements have been prepared using IFRS applicable to a "going concern", which assume that the Group 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 operations. As at December 31, 2012 the Group had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

The timeline to build the Project is dependent on a number of factors which include both the permitting and financing processes.

The Company's registered address is Suite 200 – 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2. The Company is operated by a subsidiary management services company, RM Gold (Services) Ltd. ("RMGS"). RMGS operates out of 16 Great Queen Street, London, WC2B 5DG, United Kingdom. The Company is the ultimate parent of the Group and does not have any controlling shareholders.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

2. Statement of compliance

The Group prepares its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements were approved by the Board of Directors on March 14, 2013.

3. Basis of preparation

The consolidated financial statements are prepared according to the historical cost convention except for equity settled share based payments and fidelity bonus and other benefits, which are stated at their fair value.

The accounting policies applied in the presentation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities.

The consolidated financial statements include the accounts of the Company and the following subsidiaries, which are all part of the Group:

Entity name	**Group ownership**	**Place of incorporation**	**Functional currency**
Gabriel Resources (Barbados) Ltd.	100%	Barbados	Canadian dollar
Gabriel Resources (Netherlands) B.V.	100%	Netherlands	Canadian dollar
Gabriel Resources (Jersey) Ltd.	100%	Jersey	Canadian dollar
RM Gold (Services) Ltd.	100%	UK	UK pound sterling
Rosia Montana Gold Corporation S.A.	80.69%	Romania	Romanian leu
Rom AUR SRL	100%	Romania	Romanian leu
Gabriel Finance SA	100 %	Romania	Romanian leu

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Loans made by the Company to enable non-controlling interests to acquire their shareholding in RMGC are deemed to be part of the net investment in the subsidiary and are accordingly set off against non-controlling interest balances upon consolidation. See also Note 15.

5. Critical accounting estimates, risks and uncertainties

The Company performed an analysis of risk factors which, if any should realize, could materially and adversely affect the results, financial position and/or market price of its securities.

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income for the year. These estimates and assumptions were based on Management's knowledge of the relevant facts and awareness of circumstances, having regard to prior experience. Significant estimates and assumptions include the following (excluding going concern which is disclosed in Note 1):

Recoverability of mineral properties: Management considered the economics of the Project, including the latest gold and silver prices and long-term forecasts, sensitivities on construction costs and other variables which may impact the economic viability of the Project. Consideration was also given to the risk factors mentioned above (and in Note 1) and their potential impact on the economics of the Project.

Other accounting estimates: Other estimates included the benefits of future income tax assets and whether or not to recognize the resulting assets on the Consolidated Statement of Financial Position, estimated useful lives of capital assets, share compensation valuation assumptions, and determinations as to whether costs are expensed or capitalized.

While Management believes that these estimates and assumptions are reasonable, actual results may differ from the amounts included in the consolidated financial statements.

6. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, cash on hand and other highly liquid short-term investments with maturity dates less than ninety days.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Depreciation of property, plant and equipment used for exploration and development is capitalized to mineral properties.

Depreciation is recorded using the straight-line method based on an estimated useful life of five years for vehicles and varying rates between two and five years for office equipment. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease. Property, plant and equipment in construction are not depreciated until they are brought into productive use.

Where parts (components) of an item of property, plant and equipment have different useful lives or for which different depreciation rates would be appropriate, they are accounted for as separate items of property, plant and equipment.

6. Significant accounting policies (continued)

Exploration and evaluation costs

Exploration and evaluation costs are expensed as exploration costs in the Consolidated Statement of Loss until the determination of the technical feasibility and the commercial viability of the associated project. Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when economically recoverable reserves are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. This determination is normally evidenced by the completion of a technical feasibility study.

Mineral properties and development expenditures

Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalized in mineral properties. Engineering expenditure to design the size and scope of the Project, environmental assessment and permitting, rescue archaeology and surface rights acquisitions are capitalized in mineral properties. Upon reaching commercial production, these capitalized costs will be transferred from development properties to producing properties on the Consolidated Statement of Financial Position and will be amortized using the unit-of-production method over the estimated period of economically recoverable reserves.

Associated with the mineral property, the Company has a resettlement program. Resettlement costs are transferred to mineral properties after the transfer of the legal title of the property is completed (refer to note 13).

Impairment of non-financial assets

Non-financial assets to be held and used by the Group are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Non-financial assets in construction, including the long lead-time equipment, that are not yet available for use are tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, which is the present value of the future cash flows expected to be derived from an asset. Estimated future cash flows are calculated using estimated future commodity prices, mineral resources, and operating and capital costs, using appropriate discount rates. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (each a "cash–generating unit").

An impairment loss recognized in prior periods to an asset or cash generating unit is reversed if there has been a change in the estimates used to determine the respective recoverable amount since the last impairment loss was recognized. The reversal of previously recognized impairment losses is limited to the original carrying value of the asset less any amortization which would have accrued.

6. Significant accounting policies (continued)

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. These provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax risk free rate. The increase in the provision due to passage of time is recognized as interest expense.

On recognition of a provision, an addition is made to the asset category the provision relates to and amortized in the statement of loss on a unit of production basis. The provision and related asset are adjusted for any change in estimates in subsequent periods.

At December 31, 2012 the Group has not incurred or committed to any asset retirement obligations related to the development of its mineral properties in Romania.

Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of each entity is listed in Note 4. The consolidated financial statements are presented in Canadian dollars which is the Group’s presentation currency.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of losses in the current year.

(c) Group companies

The results and financial position of all entities in the Group that have a functional currency different from the Group’s presentation currency are translated into the Group’s presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- equity transactions are translated at the historical exchange rate;
- income and expenses for each income statement are translated at the exchange rate in effect on date of the transaction (or at average exchange rates for the reporting period); and
- all resulting exchange differences are recognized in other comprehensive loss and accumulated as a separate component of equity (currency translation adjustment).

6. Significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Group classifies its financial instruments in the following categories:

Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value.

Available-for-sale investments: Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss. The Group's classifies its short term investments as available-for-sale investments.

Loans and receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade receivables, cash and cash equivalents and restricted cash, and are included in current assets due to their short term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the amount to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

Financial liabilities at amortized cost: Trade payables, accruals and other payables are classified as financial liabilities at amortized cost. Trade payables, accruals and other payables are initially recognized at the amount expected to be paid, less, when material, a discount to reduce the amount to fair value. Subsequently trade payables, accruals and other payables are measured at amortized cost using the effective interest rate method.

At each reporting date, the Group assesses whether there is objective evidence that a financial asset (other than a financial asset classified at fair value through profit or loss) is impaired. If such evidence exists, the Group recognizes an impairment loss as follows:

Financial assets carried at amortized cost: The impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

Available-for-sale financial assets: The impairment loss is the difference between the acquisition cost of the asset and the fair value at the measurement date, less any prior impairment losses previously recognized in the statement of loss.

Impairment losses on financial assets carried at amortized cost and available-for-sale instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

6. Significant accounting policies (continued)

Share based payments

The Company provides equity and cash settled share based compensation plans for the remuneration of its directors, officers, employees and consultants.

The fair value of the instruments granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the instruments are granted. The fair value of the awards is adjusted by the estimate of the number of awards that are expected to vest as a result of non-market conditions and is expensed over the vesting period using the graded vesting method of amortization. At each balance sheet date, the Company reviews its estimates of the number of options that are expected to vest based on the non-market vesting conditions including the impact of the revision to original estimates, if any, with corresponding adjustments to equity.

Share-based compensation relating to share options is charged to the Consolidated Statements of Loss and Comprehensive Loss or, for costs relating to personnel employed in Romania, capitalized to mineral properties on the Consolidated Statement of Financial Position over the vesting periods with corresponding adjustments to equity.

The Company has a Deferred Share Unit ("DSU") Plan under which qualifying participants receive certain compensation in the form of DSUs in lieu of cash. On retirement or departure from the Company, participants may redeem their DSUs for common shares of the Company, cash, or a combination of common shares of the Company and cash. It is at the holder's discretion as to whether he/she elects to settle the DSU in cash or common shares. If the holder elects to settle the DSU in common shares, then the Company, at its sole discretion, can elect to pay the amount in common shares either purchased in the open market or issued from treasury.

The Company also has a Restricted Share Unit ("RSU") Plan under which qualifying participants may receive a portion of their compensation in the form of RSUs. Upon vesting, participants may redeem their RSUs for common shares of the Company, cash, or a combination of common shares of the Company and cash.

Share-based compensation relating to DSUs and RSUs is calculated based on the quoted market value of the Company's common shares and charged to the Consolidated Statements of Loss and Comprehensive Loss or, for costs relating to Group personnel employed in Romania, capitalized to mineral properties on the Consolidated Statement of Financial Position. The compensation cost and liability is adjusted each reporting period for changes in the underlying share price.

Income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, plus any adjustment to taxes payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences arising between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable the assets will be realized in the foreseeable future.

Deferred tax assets and liabilities are presented as non-current.

6. Significant accounting policies (continued)

Loss per share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding. Diluted per share amounts are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise of options and warrants in the per share calculation are assumed to be used to acquire common shares. Whilst the Group is in a loss position, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and has not been considered.

Employee benefits

Under a collective bargaining agreement between RMGC and its employees, under certain conditions, employees of RMGC are entitled to a bonus when celebrating various years of uninterrupted service as well as other benefits related to death and termination of employment. The obligation is determined on an actuarial basis and is affected by a number of assumptions and estimates. The accrued bonuses are recorded as a liability and the expense is recorded in the Statement of Loss or, for personnel employed in Romania, capitalized as part of mineral properties.

Lease payments

Payments made under operating leases are recognized in profit and loss on a straight-line basis over the term of the lease.

Accounting standards and amendments

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year ended December 31, 2012 that would be expected to have a material impact on the Group.

The following revised standards and amendments, which may affect the Group, are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Group has not elected for early adoption of any of the applicable standards or amendments, and does not expect them to have a material impact on the results of the Group:

- IAS 1 Presentation of Financial Statements: change to the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in two groups based on whether or not they may be recycled to profit or loss in the future. The Group reports currency translation adjustments within other comprehensive income. Currency translation adjustments are not expected to recycle to profit and loss in the future;
- IFRS 10 Consolidated Financial Statements: Consolidation of an Investee: amends the definition of control under IFRS so that the same criteria are applied to all entities to determine control;
- IFRS 12 Disclosure of Interests in Other Entities: sets out disclosure requirements for entities reporting under IFRS 10 and IFRS 11;
- IFRS 13 Fair Value Measurement: provides guidance on how to measure and disclose fair value. The effect of these changes on share based payment and employee benefit obligations is not expected to be material, nor the disclosure requirements materially different from current disclosure;
- IFRS 7 Financial Instruments: Disclosures: enhanced disclosure requirements relating to offsetting of financial assets and financial liabilities.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

7. Cash and cash equivalents

	December 31 2012	December 31 2011
Cash at bank and on hand	**8,718**	85,506
Short-term bank deposits	**70,247**	49,960
Cash and cash equivalents	**78,965**	135,466
Restricted cash	**175**	172
	79,140	135,638

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates. Cash is deposited at reputable financial institutions with high quality credit standings.

The Group manages its domestic Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources from its corporate office and only transferring money to its Romanian subsidiary based on near term cash requirements, thereby mitigating exposure to domestic Romanian banks. At December 31, 2012 the Group held $2.4 million in Romanian banks (2011: $2.9 million).

Short-term bank deposits represent investments in government treasury bills, with maturities from the date of acquisition of less than 90 days.

Restricted cash represents cash collateralization of environmental guarantees for future clean-up costs.

8. Trade and other receivables

	December 31 2012	December 31 2011
Trade and other receivables	**51**	21
VAT and sales taxes	**1,694**	5,418
	1,745	5,439

The carrying amounts of accounts receivable are denominated in the following currencies:

	December 31 2012	December 31 2011
UK pound sterling	**43**	38
Canadian dollar	**-**	80
Romanian leu	**1,702**	5,321
	1,745	5,439

As at December 31, 2012 no impairment has been recorded as the amounts outstanding are expected to be recovered in full (2011: Nil). VAT receivables of $0.1 million (2011: $2.1 million) were past due but not impaired.

Notes to Consolidated Financial Statements

For the year ended December 31, 2012

(Amounts in thousands of Canadian dollars, unless otherwise stated)

9. Property, plant and equipment

	Office equipment	Building	Vehicles	Leasehold improvements	Construction in progress [(1)]	TOTAL
COST						
Balance - December 31, 2010	3,151	726	975	215	46,125	51,192
Additions	825	7	507	277	3,805	5,421
Disposals	(872)	-	-	(214)	-	(1,086)
Currency translation adjustment	(53)	(14)	(51)	-	(844)	(962)
Balance - December 31, 2011	**3,051**	**719**	**1,431**	**278**	**49,086**	**54,565**
Additions	238	-	94	4	5,060	5,396
Reclassifications	1,176	2,300	-	-	(3,476)	
Disposals	(90)	-	(28)	-	-	(118)
Currency translation adjustment	(40)	50	(42)	-	(2,642)	(2,674)
Balance - December 31, 2012	**4,335**	**3,069**	**1,455**	**282**	**48,028**	**57,169**
ACCUMULATED DEPRECIATION						
Balance - December 31, 2010	2,668	56	804	204	-	3,732
Depreciation	343	10	75	38	-	466
Disposals	(852)	-	-	(214)	-	(1,066)
Currency translation adjustment	(31)	(2)	(20)	-	-	(53)
Balance - December 31, 2011	**2,128**	**64**	**859**	**28**	**-**	**3,079**
Depreciation	406	16	131	56	-	609
Disposals	(81)	-	(28)	-	-	(109)
Currency translation adjustment	(34)	(1)	(22)	-	-	(57)
Balance - December 31, 2012	**2,419**	**79**	**940**	**84**	**-**	**3,522**
CARRYING AMOUNT						
At December 31, 2010	483	670	171	11	46,125	47,460
At December 31, 2011	923	655	572	250	49,086	51,486
At December 31, 2012	**1,916**	**2,990**	**515**	**198**	**48,028**	**53,647**

[(1)] *Amounts included in construction in progress are not subject to amortization.*

(Amounts in thousands of Canadian dollars, unless otherwise stated)

9. Property, plant and equipment (continued)

Construction in progress includes the following amounts:

	December 31 2012	December 31 2011
Resettlement site development costs	**3,730**	3,449
Long lead-time equipment	**44,298**	45,637
	48,028	49,086

Long lead-time equipment comprises crushing and milling equipment, which is not yet assembled nor used in production. These items have been procured in advance of production activities due to the nature of the procurement cycle and are currently stored in various warehouse locations outside of Romania. The storage is in accordance with both the original manufacturers' and current insurer's recommended storage requirements.

10. Mineral properties

	Rosia Montana
Balance - December 31, 2010	367,368
Development costs - additions [1]	66,511
Currency translation adjustment	(8,497)
Balance - December 31, 2011	425,382
Development costs - additions [1]	**50,666**
Currency translation adjustment	**(8,842)**
Balance - December 31, 2012	**467,206**

[1] *Mineral property additions of $50.7 million (2011 - $66.5 million) is $5.0 million higher than the amount reported in the Consolidated Statements of Cash Flows of $45.7 million (2011: $55.6 million). The difference is attributed to a net adjustment of resettlement liabilities partially offset by non-cash charges for share based compensation and amortization (see details in Note 25).*

At December 31, 2012 the Group's principal asset was its 80.69% interest in the Project held indirectly through RMGC, which holds two mineral licenses in Romania, being the exploitation license for the Project and an expired exploration license for the Bucium property. The latter is in the process of being upgraded into two separate exploitation licenses. C.N.C.A.F Minvest S.A. Deva ("Minvest"), a Romanian state-owned mining company, holds the remaining 19.31% interest in RMGC. The Group holds the pre-emptive right to acquire the 19.31% non-controlling interest. The Company is required to fund 100% of all expenditures related to the exploration and development of these properties and holds a preferential right to recover all funding plus interest (other than on non-interest bearing loans) from future cash flows prior to the non-controlling shareholders receiving dividends.

Pursuant to the Project exploitation license, RMGC has the exclusive right to conduct mining operations at the Rosia Montana property for an initial term of 20 years expiring in 2019, and thereafter with successive five-year renewal periods.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

11. Trade and other payables

	December 31 2012	December 31 2011
Trade payables	**4,914**	6,245
Payroll liabilities	**2,200**	4,517
Accrued expenses	**2,856**	6,153
	9,970	16,915

The carrying amounts of accounts payable and accrued liabilities are denominated in the following currencies:

	December 31 2012	December 31 2011
UK pound sterling	**450**	1,050
Canadian dollar	**1,374**	2,100
Euro	**35**	-
Romanian leu	**8,111**	13,765
	9,970	16,915

12. Exploration and evaluation expenses

The exploration license for the Bucium property was extended in 2004 and expired on May 19, 2007. The Group spent the equivalent of $4.1 million over the term of the license period. The expired exploration license can be converted into an exploitation license upon submission and approval of a feasibility study. During 2007, the Group filed the necessary documentation to convert the exploration license into two exploitation licenses and the Group is awaiting a response from the authorities on this filing. No additional work on Bucium's project economics is planned until the license is converted from an exploration to two exploitation licenses and the EIA for the Project is approved.

13. Resettlement liabilities

The Group has had a program for purchasing homes in the Project area, which was suspended in February 2008 due to the suspension of the EIA review process in September 2007. Under the resettlement program residents were offered two choices. They could either choose to take the sale proceeds and move to a new location of their choosing or they could exchange their properties for a new property to be built by RMGC at a new resettlement site. For those residents who chose the resettlement option, the Group increased its mineral properties on the balance sheet as well as resettlement liabilities for the anticipated construction costs of the resettlement houses. As the construction takes place, the cost of newly built houses will be capitalized as construction in progress in property, plant and equipment. After the transfer of legal title of the property, the Group reduces the amounts capitalized as construction in progress and, at the same time, its resettlement liabilities. All resettlement associated costs will remain capitalized in Mineral Properties and amortized over the life of the mine once the Project moves into production.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

13. Resettlement liabilities (continued)

At December 31, 2012 the Group had accrued resettlement liabilities totaling $4.3 million (December 31, 2011 – $4.6 million), which represents the cost of building the remaining new homes for the local residents and outstanding delay penalties.

The construction of all 125 homes at the Recea resettlement site in Alba Iulia was completed in 2010. The Group is currently reviewing the technical merits for a further resettlement village to be built, as well as the process of obtaining permits for this resettlement site. The remaining 24 property owners who chose to resettle within Rosia Montana have signed three year extension contracts which expire in May 2013. As a result of the delay in the delivery of homes, the Group pays a penalty of up to 20% of the agreed unpaid property value per year of delay as required by the agreement. As at December 31, 2012 the Group has accrued $0.4 million (December 31, 2011 - $0.4 million) representing unpaid delay penalties.

14. Other liabilities

(a) DSUs

	DSUs (000's)	Price per common share (dollars)	Value
Outstanding - December 31, 2010	179	7.89	1,412
Granted	9	6.55	59
Amortized[1]	211	4.78	1,008
Change in fair value			18
Outstanding - December 31, 2011	399	6.28	2,497
Granted	**42**	**2.62**	**110**
Amortized[1]	**133**	**5.52**	**734**
Change in fair value			**(1,987)**
Balance - December 31, 2012	**574**	**2.36**	**1,354**

[1] *The Company grants certain DSUs with vesting conditions. The expense associated with these issuances is amortized over the determined vesting period.*

As set out in Note 6, the Company implemented a DSU Plan under which qualifying participants receive, or elect to receive, certain compensation in the form of DSUs. DSUs are initially valued at the five-day weighted average market price of the Company's common shares at the date of issue, and are subsequently recorded at fair value based on the closing common share price at the end of each reporting period. The initial value assigned to the DSUs plus any subsequent change in the fair market value of the DSU liability at the end of each reporting period has been recorded in share based compensation expense except for costs relating to personnel working on projects in Romania, which are capitalized to mineral properties.

During the year ended December 31, 2012 the Company recorded a credit of $1.1 million (2011 – expense of $1.1 million) of share based compensation expense related to DSUs and capitalized Nil (2011 - Nil).

(Amounts in thousands of Canadian dollars, unless otherwise stated)

14. Other liabilities (continued)

(b) RSUs

	RSUs (000's)	Price per common share (dollars)	Value
Outstanding - December 31, 2011	-	-	-
Amortized[1]	**47**	**5.77**	**269**
Change in fair value			**(159)**
Balance - December 31, 2012	**47**	**2.36**	**110**

[1] The Company grants certain RSUs with vesting conditions. The expense associated with these issuances is amortized over the determined vesting period.

Shareholders approved an RSU Plan at the Annual General Meeting in June 2011, under which qualifying participants may receive a portion of their compensation in the form of RSUs. Upon vesting participants may redeem their RSUs for common shares of the Company, cash, or a combination of common shares of the Company and cash. RSUs are measured and accounted for in the same way as DSUs. No RSUs were granted prior to 2012.

(c) Fidelity bonus and other benefits

	2012	2011
Balance accrued - January 1	**1,853**	2,203
Expense / (gain) for the year		
- Interest cost	**166**	187
- Current service cost	**389**	250
- Recognized actuarial loss / (gain)	**320**	(717)
Total expense / (gain) for the year[1]	**875**	(280)
Payments	**(17)**	(28)
FX adjustment	**(69)**	(42)
Balance - December 31	**2,642**	1,853

[1] Fidelity bonus and other benefits relates to RMGC. As a result, all actuarially determined adjustments are capitalized to Mineral Properties.

As set out in Note 6, the fidelity bonus is a collective bargaining agreement that exists between RMGC and its employees. The key assumptions used in the annual actuarial evaluation to determine the fidelity bonus are as follows:

	December 31 2012	December 31 2011
Employee turnover rate (average based on model)	**3.50%**	3.50%
Years with full staff compliment	**18**	18
Years with 50% staff compliment	**6**	6
Weighted average inflation rate (applied discount rate)	**3.1%**	3.1%
Weighted average salary increase rates (above inflation)	**1.4%**	1.4%

The mortality and child birth rates utilized in the actuarial valuation for estimated male and female life expectancy and child birth benefits are the Romanian Mortality Tables 2009-2010 and National Life-Birth Rates for 2011 as issued by the Romanian National Institute of Statistics.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

14. Other liabilities (continued)

	December 31 2012	December 31 2011
Total other liabilities (a) + (b) + (c)	**4,106**	4,350

Other liabilities are disclosed as:

	December 31 2012	December 31 2011
Current liabilities - Other liabilities	**1,482**	49
Non-current liabilities - Other liabilities	**2,624**	4,301
Total other liabilities	**4,106**	4,350

15. Related party transactions

The Group had related party transactions, with associated persons or corporations, which were undertaken in the normal course of operations and were measured at the exchange amounts as follows:

(a) In July 2011 the Company acquired an additional 0.23% equity interest in RMGC. The Company paid a net consideration of US$1.1 million for the acquisition.

(b) In December 2004, the Company advanced a loan of US$938,000 to the non-controlling shareholder of RMGC, which remains outstanding at December 31, 2012.

(c) In 2009 the Company advanced a further loan of US$38.6 million to the non-controlling shareholder of RMGC to facilitate another statutory share capital increase in RMGC, which remains outstanding at December 31, 2012.

(d) The above loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans are accounted for as part of the Group's net investment in RMGC and have, accordingly, been set-off against non-controlling interests on the Consolidated Statement of Financial Position until such time as the repayment of the loans is more certain. Once there is certainty that the loans will be repaid, the loans and non-controlling interest components will be reflected individually.

(e) Key Management includes executive and non-executive directors and executive officers. The compensation paid or payable to key Management is as follows:

	December 31 2012	December 31 2011
Salaries and other short-term employee benefits	**1,655**	1,064
Directors' fees(1)	**602**	447
DSUs and RSUs(2)	**440**	657
Share options(2)	**3,096**	7,358
Total	**5,793**	9,526

(1) *Certain non-executive directors elect to receive DSUs in lieu of cash payments. The fair value at grant date is included in directors' fees.*

(2) *DSUs, RSUs and share options granted to key Management are fair valued at the grant date.*

(Amounts in thousands of Canadian dollars, unless otherwise stated)

16. Share capital

Authorized:
Unlimited number of common shares without par value
Unlimited number of preferred shares, issuable in series, without par value

Issued:

	Note	Number of shares (000's)	Amount
Balance - December 31, 2010		348,183	761,943
Shares issued on the exercise of warrants		30,000	75,000
Transfer from common share purchase warrants			11,393
Shares issued on the exercise of share options	18	1,431	4,872
Transfer from contributed surplus - exercise of share options			2,628
Balance - December 31, 2011		379,614	855,836
Shares issued on the exercise of share options	18	**926**	**2,695**
Transfer from contributed surplus - exercise of share options			**1,251**
Balance - December 31, 2012		**380,540**	**859,782**

17. Common share purchase warrants

During 2009 the Company closed a private placement with BSG Capital Markets PCC Limited ("BSGCM"). Pursuant to this 2009 private placement, BSGCM subscribed for 30 million units at a subscription price of $2.25 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant entitling BSGCM to purchase one additional common share of the Company at $2.50 per share for 18 months, rising to $3.00 per share for the final six months of the two year warrant period. The net proceeds of the 2009 private placement were allocated between the share capital and common share purchase warrants on the basis of their relative fair values, being $55.8 million and $11.4 million, respectively.

During 2011 BSGCM exercised all of its 30 million share purchase warrants. The cash proceeds of $75 million received by the Company are reflected in the Consolidated Statement of Cash Flows for the year ended December 31, 2011 and the previously allocated equity element of $11.4 million was transferred from common share purchase warrants to share capital.

18. Common share options

The Company has an incentive stock option plan (the "Option Plan") which authorizes the Board of Directors to grant options to purchase common shares of the Company to directors, officers, employees and consultants. The exercise price of the options equals the five-day weighted average closing price of the common shares of the Company prior to the date of the option allotment. The majority of options granted vest over three years and are exercisable over five years from the date of issuance.

The maximum number of common shares issuable either as DSUs, RSUs or under the Option Plan is equal to 10% of the issued and outstanding common shares of the Company at any point in time.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

18. Common share options (continued)

As at December 31, 2012 common share options held by directors, officers, employees and consultants are as follows:

	Outstanding			**Exercisable**		
Range of exercise prices (dollars)	**Number of options (thousands)**	**Weighted average exercise price (dollars)**	**Weighted average remaining contractual life (years)**	**Number of options (thousands)**	**Weighted average exercise price (dollars)**	**Weighted average remaining contractual life (years)**
1.18 - 1.96	5,568	1.67	1.6	4,145	1.60	0.6
1.97 - 2.22	5,000	2.00	1.0	1,667	2.00	1.0
2.23 - 4.16	3,594	2.99	1.2	3,069	3.08	1.2
4.17 - 7.18	6,959	5.26	3.0	3,465	5.22	2.9
7.19 - 8.13	6,232	8.09	3.0	959	8.05	3.1
	27,353	4.28	2.1	13,305	3.40	1.6

Director, officer, employee and consultant common share options were granted, exercised and cancelled as follows:

	Number of options	**Weighted average exercise price (dollars)**
Balance - December 31, 2010	24,281	3.95
Options granted	1,975	7.44
Options exercised	(1,431)	3.41
Balance - December 31, 2011	24,825	4.26
Options granted	**3,819**	**4.09**
Options forfeited	**(365)**	**4.47**
Options exercised	**(926)**	**2.91**
Balance - December 31, 2012	**27,353**	**4.28**

The estimated fair value of common share options is amortized using graded vesting over the period in which the options vest, which is normally three years. For those options which vest on a single date, either on issuance or on meeting milestones (the “measurement date”), the fair value of these options is amortized using graded vesting over the anticipated vesting period.

The fair value of common share options granted to personnel working on development projects is capitalized over the vesting period.

During the year ended December 31, 2012 the Company granted 3.8 million options (2011 – 2.0 million). All of the options granted vest over a three-year period (2011 – 1.5 million and the remainder vest based on achievement of certain milestones). The fair value of performance options that vest upon achievement of milestones will be recognized and expensed over the estimated vesting period of these options. Adjustments resulting from the recalculation of the estimated vesting periods are recorded in the Consolidated Statement of Loss.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

18. Common share options (continued)

The valuation of the common share options granted was calculated with the following assumptions:

	December 31 2012	December 31 2011
Weighted average risk-free interest rate	**1.17%**	2.06%
Volatility of share price (over previous three year period)	**63%**	92%
Weighted average life of options (years)	**3.2**	3.6
Forfeiture rate	**5.0%**	0.6%
Weighted average fair value of awards ($)	**1.73**	4.64

As of December 31, 2012 the remaining fair value of outstanding unvested options to be expensed is $6.3 million (2011: $9.1 million) and to be capitalized is $11.8 million (2011: $13.2 million).

The fair value of share options expensed and capitalized during the year is as follows:

	December 31 2012	December 31 2011
Expensed	**6,205**	8,909
Capitalized	**4,888**	10,762

19. Income taxes

During May 2011 the Group received a favorable decision from the Bucharest Court of Appeal for the reimbursement of taxes paid in 2005 to 2007. The Romanian fiscal authorities submitted an appeal against this decision to the High Court of Cassation and Justice, an appeal which was irrevocably rejected by the court on March 13, 2013. Pursuant to this judgment, RMGC shall submit a request to the Romanian fiscal authorities for the repayment of approximately 12.7 million RON (approximately $3.9 million). The timeframe and process for seeking recovery of the full amount is uncertain at this time. As of December 31, 2012 no amount was recorded in the consolidated financial statements in relation to this reimbursement. All tax assessments for prior periods have been paid or provided for in the respective company financial statements.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

19. Income taxes (continued)

The following table reconciles the expected income tax at the Canadian statutory income tax rate to the amounts recognized in the Consolidated Statement of Loss.

	December 31 2012	December 31 2011
Loss before income taxes	**11,441**	16,687
Income tax rate	**30%**	33%
Income tax at statutory rates	**(3,432)**	(5,507)
Tax effects of:		
- Non-deductable items /permanent differences	**1,552**	3,298
- Unrecognised tax losses	**1,880**	2,209
Income tax	**-**	-

The Group has the following unrecognized deferred tax assets within Canada. The expected future cash flow will be determined by the future tax rates applicable in Canada when the assets are utilized.

	December 31 2012	December 31 2011	Expiry
Loss carry forwards	**74,635**	67,877	2014-2032
Unclaimed share issue cost	**845**	1,689	No expiry
Capital assets	**1,338**	1,650	No expiry
Cumulative eligible capital expenditures	**12,669**	12,669	No expiry
Unrecognised deferred tax assets	**89,487**	83,885	

In addition to the unrecognized deferred tax assets listed above, RMGC has unrecognized book to tax differences in Romania amounting to $20.5 million (2011: $20.2 million), of which certain amounts are contingent on the achievement of certain debt to equity ratios and the balance on profitable earnings. These differences could give rise to deferred tax assets that have expiry dates between 2013 and 2017.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

20. Segmented information

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Company's Chief Executive Officer.

The Group has one operating segment: the exploration, evaluation and development of precious metal mining projects located in Romania ("Mining"). The rest of the entities within the Group are grouped into a secondary segment ("Corporate").

The segmental report is as follows:

	Mining		**Corporate**		**Total**	
For the year ended December 31,	**2012**	2011	**2012**	2011	**2012**	2011
Reportable items in the Consolidated Statements of Loss and Comprehensive Loss						
Finance income	-	-	**(842)**	(877)	**(842)**	(877)
Amortization	-	-	**233**	191	**233**	191
Reportable segment loss	-	-	**11,441**	16,687	**11,441**	16,687
As at December 31,	**2012**	2011	**2012**	2011	**2012**	2011
Reportable segment in Consolidated Statement of Financial Position						
Reportable segment current assets	**4,879**	9,447	**76,954**	132,807	**81,833**	142,254
Reportable segment non - current assets	**520,526**	476,351	**327**	689	**520,853**	477,040
Reportable segment liabilities	**(14,991)**	(20,183)	**(3,343)**	(5,647)	**(18,334)**	(25,830)

The Group's non-current assets, with the exception of certain items of long lead-time equipment (refer to Note 9), are predominantly located in Romania.

21. Financial instruments

The recorded amounts for cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and other liabilities approximate fair values based on the nature of those instruments.

The Group's risk exposures and the impact on the Group's financial instruments are summarized below:

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents that are held in investment accounts with Canadian banks and invested in Canadian sovereign debt. The Group has adopted an investment strategy to minimize its credit risk by investing in sovereign debt (primarily issued by Canada, subject to availability) with the balance of cash being invested on short-term overnight deposit with the major Canadian banks.

The Group is exposed to the credit risk of domestic Romanian banks that hold and disburse cash on behalf of its Romanian subsidiaries. The Group manages its Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources at the corporate office and only transferring money to its Romanian subsidiary based on near term cash requirements, thereby mitigating exposure to domestic Romanian banks.

The Group holds small cash balances in the United Kingdom to fund corporate office activities.

The Group's credit risk is also attributable to value-added taxes receivable. Value-added taxes receivable are primarily collectable from the Romanian government, although RMGC is permitted in certain circumstances to offset certain RMGC payroll taxes against such recoverable value-added taxes.

Liquidity risk

The Group has sufficient funds as at December 31, 2012 to settle all current and long-term liabilities.

Market risk

(a) Interest rate risk

The Group has significant cash balances and no debt. With the Group maintaining a short-term investment horizon, typically less than 3 months, for its cash, cash equivalent, and short-term investment balances, it minimizes the risk of interest rate volatility as investments mature and are rolled over. Where yields on investments less than 90 days are not significantly lower than investments greater than 90 days but less than one year, the Group has elected to utilise the shorter term investments.

With a short-term investment horizon and the intent to hold all investments until maturity, the Group is only marginally exposed to capital erosion should interest rates rise and cause fixed yield investments to devalue.

The Group's primary objective with respect to cash and cash equivalents is to mitigate credit risk. The Group has elected to forego yield in favour of capital preservation.

21. Financial instruments (continued)

(b) Foreign currency risk

The Group's presentation currency is the Canadian dollar and its activities expose it to fluctuations in foreign exchange rates. The Group has monetary assets and liabilities denominated in Romanian Lei, US dollars, UK pounds sterling and EUROs and is, therefore, subject to exchange variations against both the functional and presentation currency.

The Group maintains cash and cash equivalents in various currencies and is therefore susceptible to market volatility as foreign cash balances are revalued to the functional currency of the entity and thereafter to the presentation currency of the Group. Therefore, the Group may report significant foreign exchange gains or losses during periods of significant economic and market volatility. The Group currently endeavours to keep the majority of its cash, cash equivalents, and short-term investments in Canadian dollars.

Financial instruments

The Group's financial assets consist of cash and cash equivalents, trade and other receivables and prepaid expenses, all of which are classified as loans and receivables. The Group estimates that their fair values approximate their carrying values.

The Group's financial liabilities consist of trade and other payables and resettlement liabilities, which are amortized at cost, and other liabilities which are fair valued through profit and loss (refer to note 14).

Sensitivity analysis

As of December 31, 2012 the carrying amount of the financial instruments equals fair market value. Based on Management's knowledge and experience of the financial markets, the Company believes, based on its balance of cash and cash equivalents as at December 31, 2012, the following movements are "reasonably possible" over a twelve-month period:

- Cash and cash equivalents include deposits which are at floating interest rates. A plus or minus 1% change in earned interest rates would affect net income from deposits by less than $0.1 million.
- The Group holds minor balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of December 31, 2012 a plus or minus 1% change in foreign exchange rates would affect net income by less than $0.1 million.

22. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and fund development of the Project, in order to provide returns for shareholders and benefits for other stakeholders. The Group manages, and makes adjustments to its capital structure based on the level of funds on hand and anticipated future expenditures.

In order to maintain or adjust the capital structure, the Group has, when required, raised additional capital from shareholders. The Group has not paid dividends, nor returned capital to shareholders to date. At December 31, 2012 the Group did not have any debt. To safeguard capital the Group invests its surplus cash and cash equivalents in highly liquid, highly rated financial instruments.

While the Group expects that it will be able to obtain equity, long-term debt and/or alternative financing sufficient to build and operate the Project, there are no assurances that these initiatives will be successful.

The Company is not subject to externally imposed capital requirements.

(Amounts in thousands of Canadian dollars, unless otherwise stated)

23. Commitments and contingencies

The following is a summary of contractual commitments of the Group including payments due for each of the next five years and thereafter.

	Note	Total	2013	2014	2015	2016	2017	Thereafter
Capital commitments								
Resettlement	a	802	664	51	76	11	-	-
Operating lease commitments								
Rosia Montana exploitation license	b	890	178	178	178	178	178	-
Surface concession rights	c	757	20	20	20	20	20	657
Lease agreements	d	1,390	485	289	274	274	68	-
Total commitments		3,839	1,347	538	548	483	266	657

(a) RMGC has contracted building services for the construction of houses in Recea, Alba Iulia for resettlement of residents of the Project area. Construction activities commenced in the later stages of 2011 and are expected to be completed in 2013. The construction contracts are 'arms-length' agreements with unrelated third parties.

(b) Under the terms of the Group's exploitation mineral license for the Project, an annual fee is required to be paid to maintain the license in good standing. The current annual fee is approximately $0.2 million. These fees are indexed annually by the Romanian Government and the license has 5 years remaining.

(c) RMGC has approximately 40 years remaining on a concession agreement with the Local Council of Rosia Montana Commune by which it is granted exploitation rights to property located on and around one of the Project's proposed open pits for an annual payment of $20,000.

(d) The Group has entered into agreements to lease premises for various periods. The annual rent of premises consists of minimum rent plus realty taxes, maintenance and in certain instances utilities.

24. Earnings per share

	December 31 2012	December 31 2011
Loss for the year attributable to owners of the parent	**11,441**	16,687
Weighted-average number of common shares (000's)		
Basic number of shares	**379,990**	365,298
Dilutive effect of:		
Share options	**27,353**	24,825
Deferred and restricted share units	**621**	399
Common share purchase warrants	**-**	13,764
Total diluted number of shares	**407,964**	404,286
Basic and diluted loss per share	**$ 0.03**	$ 0.05

While the Company is in a loss making position, the effect of potential share issuances under stock options, deferred and restricted share units and warrants would be anti-dilutive. Diluted earnings per share are therefore deemed to be the same as basic earnings per share.

Notes to Consolidated Financial Statements

For the year ended December 31, 2012

(Amounts in thousands of Canadian dollars, unless otherwise stated)

25. Supplemental cash flow information

	December 31 2012	December 31 2011
(a) Net changes in non-cash working capital		
Operating activities:		
Accounts receivable, prepaid expenses and supplies	**(2)**	34
Accounts payable and accrued liabilities	**(734)**	364
Unrealized foreign exchange gain on working capital	**97**	-
	(639)	398
Investing activities:		
Accounts receivable, prepaid expenses and supplies	**4,097**	(4,149)
Accounts payable and accrued liabilities	**(5,425)**	6,447
	(1,328)	2,298
(b) Exploration and development expenditures		
Balance sheet change in mineral properties excluding CTA	**(50,666)**	(66,511)
Decrease in resettlement liabilities	**(307)**	(121)
Non-cash depreciation and disposal capitalized	**385**	293
Share based compensation capitalized	**4,888**	10,762
Exploration and development expenditures per cash flow statement	**(45,700)**	(55,577)
(c) Cash and cash equivalents is comprised of:		
Cash	**8,718**	85,506
Short-term investments (less than 90 days) - weighted average interest of 0.91% (2011 - 0.92%).	**70,247**	49,960
	78,965	135,466