

# 2009 Financial Report

Gabriel Resources Ltd.



GABRIEL  
*Rozia Montană*  
IN PARTNERSHIP



# Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations to enable a reader to assess material changes in the financial condition and results of operations as at and for the years ended December 31, 2009 and 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto ("Statements") of Gabriel Resources Ltd. ("Gabriel" or the "Company") as at and for the years ended December 31, 2009 and 2008. The Company's Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").*

*All amounts included in the MD&A are in Canadian dollars, unless otherwise specified. This report is dated as of March 10, 2010, and the Company's public filings, including its most recent Annual Information Form, can be reviewed on the SEDAR website ([www.sedar.com](http://www.sedar.com)).*

## Overview

Gabriel is a Canadian-based resource company committed to responsible mining and sustainable development in the communities in which it operates. Gabriel is engaged in the exploration and development of mineral properties in Romania and is presently developing its 80.46%-owned Rosia Montana gold project (the "Project"). Minvest S.A. ("Minvest"), a Romanian state-owned mining company, and one other private Romanian company, hold a 19.54% interest in Rosia Montana Gold Corporation ("RMGC"), and Gabriel holds the pre-emptive right to acquire the 19.54% minority interest. RMGC will be required to pay a 4% net smelter royalty to the Romanian government on all production from the Project.

Our mission is to create value for all of our stakeholders from responsible mining. Our vision is to build the Project and to be a catalyst for sustainable economic, environmental, cultural and community development. As we develop the world-class Rosia Montana Project, we will strive to set high standards through good governance, good engineering, open and transparent communications, and operations and reclamation based on Best Available Techniques – all in the service of value creation and sustainable development. Whether the issue is corporate governance, community development, environmental responsibility or operational practices, we pledge to do it right.

## Key Issues

### Political Situation

In 2008 Romania held national parliamentary elections and a coalition government was formed comprised of the Democrat-Liberal Party ("PDL") and the Social Democrat Party ("PSD"). The government focused on an anti-crisis program to mitigate the impact of the financial and economic crisis, completing the 2009 budget for the country and negotiating the terms of an aid package worth approximately €20 billion from the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development (the "Financial Aid Package").

In October 2009, Romania's governing coalition of PDL and PSD collapsed after the withdrawal of the PSD members from the coalition government, and all of its cabinet members from their respective ministries. The Prime Minister established an interim government, which fell after passage of a no-confidence motion introduced in Parliament by the National Liberal Party ("PNL"), the Democratic Union of Hungarians ("UDMR") and the PSD.

Romania held its presidential election in two rounds, on November 22 and December 6, 2009, returning incumbent Traian Basescu for a second five-year term in office. President Basescu asked former Prime Minister Emil Boc to form a new government, and a new governing coalition was sworn in on December 22, 2009 comprised of the PDL, the Hungarian-ethnic UDMR alliance, plus Independent and Minority bloc parliamentarians.

This government, like its 2009 predecessor, is focused on an anti-crisis program to mitigate the impact of the financial and economic crisis, supported by the €20 billion aid package. Given the critical importance of sparking sustained economic development, the Company continues to draw public and political attention to the significant economic opportunity its Project represents, while conforming to the highest standards on environmental, patrimonial and social matters.

Throughout 2009, the Project received strong support from members of the local and regional political leadership of both parties in the then-ruling coalition government. This support was manifested through, among other things, a series of open letters to various government ministries. These open letters consistently requested that the government restart the Environmental Impact Assessment ("EIA") review process immediately.

During the final presidential debate, President Basescu made a strong statement regarding the importance of the Rosia Montana Project, and the Minister of Economy included the Project in Romania's governing program. While the new Minister of Environment has voiced skepticism about the Project, he has framed his comments around the expectation that it must meet all relevant laws and regulations – standards fully embraced by the Company, and built into the Project's design and operational plans. The Minister of Environment has publicly stated his intention to visit Rosia Montana, while President Basescu has declared his intention to discuss Rosia Montana in the CSAT – Romania's council on national security issues.

Under previous governments, several private members' bills were introduced for consideration by the Romanian Parliament. Each bill was intended to block the Project, either by banning the use of cyanide in mining operations, or by creating a protected status for the area designated for mining. One of the bills related to the creation of protected areas was voted down and the other two were transferred to the new Parliament and remain in the parliamentary committee process. The sponsors of the bills are no longer members of Parliament. With a new Parliament in place, it is not possible to determine when or if any of these bills will be tabled for consideration and a vote taken in the Chamber of Deputies. In the ordinary course of any parliamentary session, many legislative bills are introduced for debate, some of which, when passed in their final form, could have an adverse impact on the Project from an economic, permitting or operations perspective. At this time, the Company cannot predict what these potential outcomes may be, given the inherent unpredictability of the parliamentary review process; however, the two private members' bills mentioned above are the only ones currently before Parliament which have been expressly proposed to stop the Project.

Throughout 2009, management focused on meeting with stakeholders to understand their issues and concerns and to explain the benefits and impacts of the Project. Strong local and regional support among public officials is a direct result of our outreach. To further strengthen our communication efforts, the Company retained an internationally recognized public relations firm to assist with our ongoing communications program. Our communication efforts have been fact-based, focusing on the critically-needed economic benefits the Project will bring to Romania at a time when the country faces the impact of the global financial crisis. In addition, we

have attempted to demonstrate how modern mining methods and strict standards can help Romania revitalize its resource sector, creating an economic engine for growth and sustainable development. While political and non-governmental organization ("NGO") opposition remains, broader understanding of these economic and development issues is a factor in the positive reaction to the Project among Romania's governing authorities.

### *Environmental/Permitting*

Since the fall of 2007, review of the Project's EIA has been suspended as a result of a decision taken by the former Romanian Minister of Environment (the "MOE"). Since that time, management has worked diligently to advocate in favour of a restart of the EIA review process and advance the permitting process for the Project. Throughout 2009, management has been focused on initiating and maintaining dialogue with the various ministries in the Romanian government with respect to the EIA review process. The change in government in December 2009 has allowed for a more active dialogue with senior members of the government and key officials, with the aim of moving the Project forward.

While the EIA is by far the most important project approval, there are a number of other permits and approvals required to advance the Project to construction, such as dam safety permits, zonal urbanistic plans for the industrial and protected areas and forestry/agriculture land use change permits, as well as other permits and approvals that follow EIA approval. To the extent that these permits and approvals are not dependent on EIA approval or the acquisition of surface rights, the process to obtain each of these will proceed in parallel with the EIA review process. The Company is moving forward with the amended industrial zonal urbanistic plan ("Amended PUZ"), having completed four public participation meetings and prepared responses to the questions received from these public consultations, including questions received from Hungarian stakeholders which were filed with the Ministry of Environment. In addition, the Local Council has initiated the process for the zonal urbanistic plan for the Protected Area. The plan has been drafted and the final form endorsed by the Local Council as a result of the public consultation held in October 2009. A notification to the Environmental Protection Agency has been issued in order to obtain the other necessary endorsement. Assuming a normal path along the permitting stage, we expect final approval for the Amended PUZ and PUZ-Protected Area in the fourth

quarter of 2010. The forestry and agricultural land use change permits will proceed after the EIA has been approved and surface rights obtained. The dam safety permits for the Rosia Montana Project, which have been validated by the Bucharest Court of Appeal, remain subject to a final appeal to the Supreme Court by the MOE. The first appeal hearing took place in December 2009, with the second hearing scheduled for March 2010. In the absence of any other extraordinary events, legal or otherwise, we expect these permitting processes to take at least six months from the date the EIA is approved by the Romanian government.

### *Litigation*

A number of foreign-funded and Romanian NGOs have initiated a multitude of legal challenges against virtually every local, regional and national Romanian regulatory authority that has the administrative authority to grant permits, authorizations and approvals for any aspect of the exploration and development of the Project. While some of the actions have been successful, most have been frivolous. These legal challenges include civil actions against both the regulatory authorities and individuals within such regulatory authorities; in general, they claim that such regulatory authorities are acting in violation of Romanian laws and ask for cancellation of the license, permit or approval, along with archaeological discharge certificates. Gabriel, through RMGC, has intervened in all cases in order to ensure that the Romanian courts considering these actions are presented with a legally correct, fair and balanced analysis of why the various Romanian regulatory authorities' actions are in accordance with the relevant and applicable laws.

While the Company has designed the Project to follow all applicable laws to protect against permitting delays of the Project, multiple legal challenges brought forward by NGOs in Romania may continue to cause potential setbacks to the Project timeline.

During the fourth quarter of 2009, there were two decisions issued by the Romanian courts on files involving RMGC. On November 2, 2009, the Cluj Tribunal admitted a claim filed by an NGO opposed to the Rosia Montana Project to cancel urbanism certificate No. 105 ("UC 105"). UC 105 was granted to RMGC by the Alba County Council in July 2007 and expired in July 2008. The written reasons for this decision have yet to be issued by the Cluj court; once they are received, RMGC will make a determination on whether

or not to appeal this decision. On December 2, 2009, the Timisoara Court of Appeal ruled against an NGO claim to have the technical presentation report, which was filed with the Romanian Ministry of Environment (the "MOE") in 2004, returned to RMGC for further completion.

On December 8, 2009, the first hearing took place regarding the MOE's appeal against the Bucharest Court of Appeal decision compelling the MOE to issue two dam safety permits for the Rosia Montana Project to RMGC. This case remains ongoing before the Supreme Court of Romania. On December 18, 2009, RMGC filed its final appeal against the Bucharest Court of Appeal decision of July 1, 2009, which dismissed our claim challenging the grounds for suspension of the EIA review procedure for the Rosia Montana Project. This appeal will be heard by the Supreme Court of Romania.

Litigation concerning urbanism certificate No. 68, Archaeological Discharge Certificate No. 5 and RMGC challenges to decisions related to two assessments issued in 2008 also continue through the Romanian courts. No other definitive decisions related to outstanding litigation were issued during the fourth quarter of 2009.

### *Surface Rights*

As a result of the suspension of the EIA review process in September 2007, the home purchase program was suspended indefinitely in February 2008. The Company owns 77% of the homes in the industrial zone, protected area and the buffer zone.

In addition to the private properties required, the Company needs to acquire properties (about 35% of the surface area of the Project) that are owned by institutions, including the local administrations of Rosia Montana and Abrud, as well as certain churches and state-owned mining companies. The process to acquire the institutional properties is underway and expected to be completed after the approval of the EIA.

Once the Company completes the agreements for institutional properties, its ownership will rise to approximately 85% of the industrial zone of the Project, further demonstrating strong local support for the Project. Ultimately, the Company's ability to obtain construction permits for the mine and plant is predicated on securing 100% of the surface rights in the industrial zone, the timing of which is not entirely within the Company's control.

### *Resettlement Sites*

Construction of the Alba Iulia resettlement site, known as Recea, began in the summer of 2007. Infrastructure was completed during the third quarter of 2008. The construction of all 125 homes at the Recea resettlement site in Alba Iulia has been completed, and 124 homes have been handed over to their new owners. The last home will be handed over, and legal transfer of the seven remaining homes will be finalized, in the first quarter of 2010. This project has attracted attention regionally and nationally for the quality of its design and construction, and it is a visible testament to the determination of the Company to deliver on its promises to the people of Rosia Montana.

The Company is currently working to obtain permits for the construction of Piatra Alba, the new resettlement village to be built in Rosia Montana. The Company was hoping to begin construction toward the end of 2009. Delays in the permitting process have changed the expected time to obtain the construction permit to the second quarter of 2010. Planning is advancing in order to allow mobilization immediately upon granting of the construction permits.

### *Archaeology*

An archaeological review of historic mining activity in Rosia Montana is a critical step in the granting of the construction permit to build the Project. An archaeological discharge certificate is required for all of the area under the footprint of the proposed mine.

An NGO commenced legal action in 2004 and ultimately obtained an annulment with respect to RMGC's archaeological discharge Certificate No. 4 ("ADC 4") from the Supreme Court of Romania in December 2008. The Company has reviewed the Court's written reasons for this decision and intends to apply for a new ADC 4 through a revised application performed by independent researchers that it believes will address all deficiencies identified by the Court.

Archaeological discharge Certificate No. 5 ("ADC 5") has also been challenged. An initial NGO claim seeking the suspension of ADC 5 has been irrevocably rejected by the Romanian Courts; however, an annulment claim remains outstanding. ADC 5 is a compilation of the four previously issued discharge certificates which was obtained for administrative convenience only. The Company has been advised by its Romanian legal counsel that the annulment of ADC 5 would not result in the annulment of the underlying discharge certificates.

The Company commissioned two independent audits (from highly regarded UK-based firms), one on archaeology and the other on architecture. The archaeological audit report concluded that the "National Research Programme, set up in response to proposals for the Rosia Montana gold mine project, represents one of the largest cultural heritage projects ever undertaken in Romania. The large body of data created will be invaluable in further understanding of Roman Dacia [a province of the Roman Empire], and as a basis for future studies". In addition, the report concluded that the Project was compliant with the applicable regulatory framework and best practices. The architectural expert audit, though positive, returned some constructive comments. The report commented that inadequate attention was being paid to the preservation of some peripheral buildings in the protected area, the majority of which are owned by the Company, and in some instances inappropriate materials and techniques were being used in the conservation work. A preservation program is now underway. A plan for next-stage restoration is in the final preparatory stage for review by experts, and repairs, appropriate materials and techniques for restoration of the buildings (including training of craftsmen in the necessary skills) are being organized.

The Company has completed the restoration of the first stone-made house located in the centre of Rosia Montana, meant to host a permanent exhibition of history and mining archaeology, which will be part of the future Mining Museum (this was one of the public commitments made in the EIA).

In the meantime, the Company continued the emergency maintenance works for 120 houses located in the historical centre of Rosia Montana, with the aim of halting their deterioration. The restoration of these houses will continue through a multi-year program, which will run in parallel with the construction and the operations phase of the Project.

### **CEO Search**

On March 23, 2009, Alan R. Hill retired as President and CEO of Gabriel. The Board appointed Keith Hulley, who has served on the Board and as Chairman of the Technical Committee for the past three years, as interim CEO until a permanent replacement is found. The Company formed a selection committee and an executive search firm has been engaged to assist the Company in finding a new CEO.

## Liquidity and Capital Resources

Cash, cash equivalents and short-term investments at December 31, 2009 totalled \$162.3 million.

On June 11, 2009, the Company closed a private placement and public offering financing through the issuance of 51.8 million common shares at \$2.25 per share for aggregate gross proceeds of approximately \$117 million (Cdn\$112 million after deducting fees). The share issuance costs related to the public offering and private placement were \$4 million. Pursuant to the private placement, each of Electrum Strategic Holding LLC and Paulson & Co. Inc increased their percentage ownerships to 19.99% of the then-issued and outstanding common shares of the Company.

On December 18, 2009, the Company closed a private placement with BSG Capital Markets PCC Limited, which is part of the Beny Steinmetz Group ("BSG"). Pursuant to the private placement, BSG subscribed for 30 million Units at a subscription price of \$2.25 per Unit for gross proceeds to the Company of \$67.5 million. The share issuance costs related to the private placement were \$0.3 million. Each Unit consists of one common share of the Company and one common share purchase warrant entitling BSG to purchase one additional common share of the Company.

The Company intends to put the net proceeds of each of the equity raises toward costs associated with developing the Rosia Montana gold project and for general corporate purposes.

The base budget and forecast for 2010 on the Rosia Montana Project totals \$38.4 million. This budget includes only those expenditures and commitments to maintain the value of our investment in mineral properties and to move the Project through EIA approval. Once the EIA is approved, the acquisition of remaining surface rights, completion of the control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits are expected to cost approximately \$93 million. Corporate overhead costs are expected to total an additional \$6 million.

## Capital and Operating Costs

The Company filed National Instrument 43-101, Technical Information Update for the Project in March 2009, providing a full technical update of the Rosia Montana Project. The qualified persons who certified the 43-101 Technical Information Update, which is the basis for the updated cost estimates, are: B. L. Gossage, MAusIMM; J.M. Marek P.E.; P.G. Corser, P.E.; S. Smith, MAusIMM; and C.R. Lattanzi, P.Eng. The document can be viewed at [www.sedar.com](http://www.sedar.com).

## Capital Costs

The cost to complete the Project was estimated at US\$876 million (excluding working capital) based on a revised cost estimate in March 2009 that used fourth quarter 2008 pricing.

### Capital costs to completion – summary

In millions of US dollars	2009
Mining	\$ 90
Process	115
Tailings management facility	99
Infrastructure/utilities	137
<b>Subtotal – direct costs</b>	<b>441</b>
EPCM <sup>(1)</sup> and other indirect costs	158
Contingency – industrial	53
<b>Subtotal – indirect costs</b>	<b>211</b>
<b>Total direct and indirect costs</b>	<b>652</b>
Community development	88
Owner's costs – other	116
Contingency – owner's	20
<b>Subtotal – owner's costs</b>	<b>224</b>
<b>Total initial capital</b>	<b>\$ 876</b>

(1) Engineering, procurement and construction management

## Operating Costs

Based on the March 2009 feasibility study, the estimated total cash cost<sup>(1)</sup> to produce gold over the first five years is estimated at US\$272 per ounce and is expected to average US\$335 per ounce over the life of the Project.

(1) Total cash cost is a non-GAAP financial measure. Total cash costs represent all costs absorbed into inventory, plus royalties and production taxes, less by-product revenues, and exclude amortization and accretion.

A summary of key operating statistics and costs, for the first five and 10 years as well as life-of-mine, based on a revised cost estimate from March 2009 that used fourth quarter 2008 pricing, is as follows:

### Operating statistics

	Average first 5 years	Average first 10 years	Total life-of-mine
Tonnes milled (thousands)	12,861	13,625	214,931
Tonnes waste (thousands)	18,426	19,287	256,899
Strip ratio	1.43	1.42	1.20
Gold grade (grams per tonne)	1.90	1.61	1.46
Silver grade (grams per tonne)	10.50	8.12	6.88
Gold recovery (%)	80	80	79
Silver recovery (%)	62	61	61
Gold production (gross) (ounces)	626,000	562,000	7,930,000
Silver production (gross) (ounces)	2,685,000	2,172,000	28,886,000

### Project total cash cost per ounce

In US dollars	Average first 5 years	Average first 10 years	Total life-of-mine
Mining cost	\$ 70	\$ 78	\$ 78
Processing cost	181	200	223
General, administrative and other costs	32	36	40
<b>Total cash operating costs</b>	<b>\$ 283</b>	<b>\$ 314</b>	<b>\$ 341</b>
Silver by-product credit	(44)	(40)	(38)
<b>Cash costs per ounce</b>	<b>\$ 239</b>	<b>\$ 273</b>	<b>\$ 303</b>
Royalties	33	33	32
<b>Total cash costs<sup>(1)</sup></b>	<b>\$ 272</b>	<b>\$ 306</b>	<b>\$ 335</b>

(1) Total cash costs is a non-GAAP financial measure, which does not include amortization and accretion.

### Project operating costs summary – life-of-mine

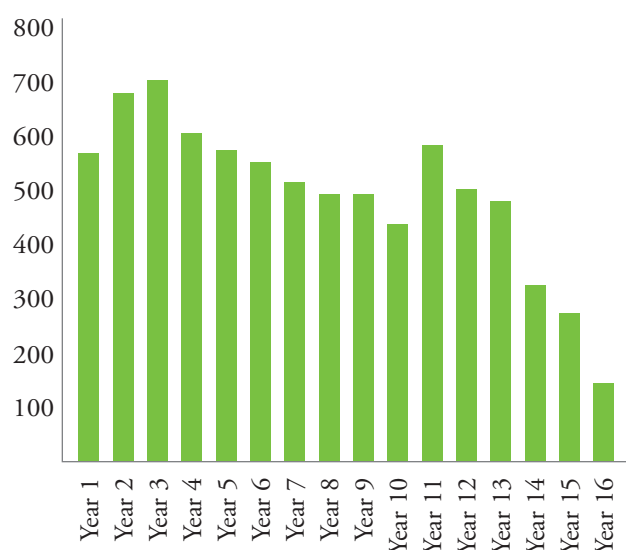
In US dollars	\$000s	\$ per ounce of gold	\$ per tonne milled
Mining costs	\$ 618,080	\$ 78	\$ 2.88
Processing costs	1,768,077	223	8.23
General, administrative and other costs	315,348	40	1.46
<b>Subtotal</b>	<b>\$ 2,701,505</b>	<b>\$ 341</b>	<b>\$ 12.57</b>
Silver by-product credit	(301,034)	(38)	
Royalties	256,995	32	
<b>Total</b>	<b>\$ 2,657,466</b>	<b>\$ 335</b>	

## Gold Production

The Project is estimated to produce 626,000 ounces of gold annually during its first five years of operation and an average of 511,000 ounces per year over its approximately 16-year mine life. Over the Project's life, total production is estimated at 7.9 million ounces of gold. Below is a summary of gold production by year.

## Gold Production

In thousands of ounces



## Project Sensitivity

Along with other industry participants, Gabriel is subject to commodity and foreign exchange fluctuations that may materially affect cash flows from the Project.

Our project analysis is denominated in US dollars and a significant portion of the costs to construct and operate the Project are denominated in currencies other than the US dollar; therefore, if the US dollar were to strengthen or weaken relative to those currencies, the value of the Project would change. The table below shows the potential impact of foreign exchange rate changes on our capital costs to completion.

### Capital costs to completion – impact of a plus or minus 5% change in currency relative to the US dollar

Euro	US\$ 14.5 million
Ron	US\$ 26.3 million

The table below shows the potential impact of foreign exchange rate changes on operating costs:

### Operating costs – impact of a plus or minus 5% change in currency in which the operating costs are denominated

#### Operating costs

Mining cost	US\$ 14 million
Processing cost	US\$ 78 million
General, administrative and other costs	US\$ 11 million

Management has taken into consideration fluctuations in the foreign currencies and their impact on the capital costs to complete the Project and on operating costs. Based on current exchange rates (as of February 2010), the cost to construct the Project would be approximately US\$25 million higher today, while operating costs would increase by \$44 million (approximately US\$5 per ounce). The increase in both capital costs and operating costs is more than offset by higher gold prices.

Management will update the cost to construct the Project as part of the financing and in parallel with the permitting effort once the Company receives its EIA approval. Typical for any mining company are key operating variables that affect financial performance. These variables include: recovered gold grades, mining costs, processing costs and capital costs.

The net asset value of the Project is most sensitive to variations in gold prices and recovered gold grades and less sensitive to variations in capital expenditures or operating costs (mining and processing).

### Impact of a plus or minus 5% change in variable on the undiscounted project cash flow (after tax)

#### Variable

Gold grade	US\$ 240 million
Process costs	US\$ 75 million
Capital costs	US\$ 44 million
Mining costs	US\$ 26 million

### Impact of a plus or minus US\$50 change in gold price on the undiscounted project cash flow

Gold price	US\$ 320 million
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Fluctuations in the long-term gold price will have a significant impact on the net asset value of the Project. The table below shows the impact of different gold prices on the internal rate of return, net asset value and project payback.

	Realized gold price per ounce		
	\$750	\$900	\$1,000
All dollar amounts are in US dollars			
Internal rate of return	20.4%	28.0%	31.6%
Net present value @ 0% (millions)	\$ 1,662	\$ 2,621	\$ 3,265
Payback (years)	3.5	2.7	2.0

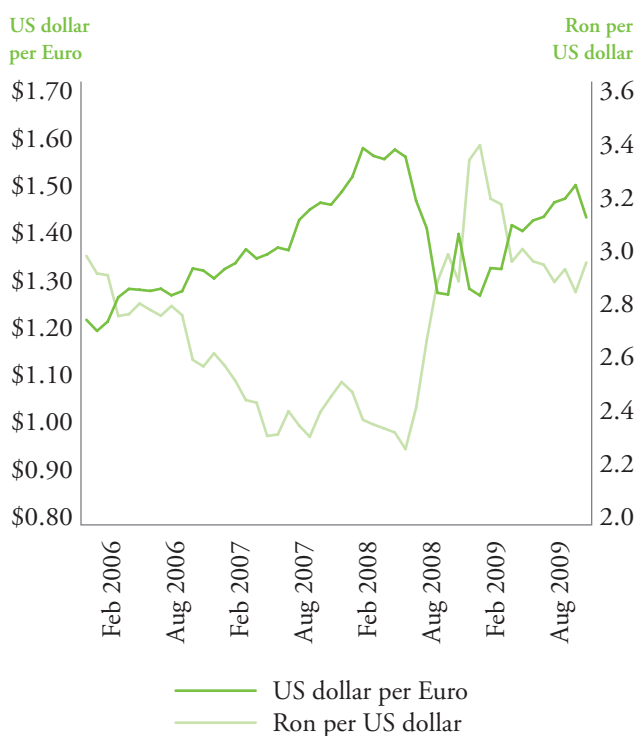
Cash operating costs for the Project are most sensitive to variations in the Euro, Ron, power and cyanide costs and less sensitive to all other operating costs.

**Impact of a plus or minus 5% change in cost/variable on the cash cost per ounce**

Variable	
Process power	US\$ 3.18
Cyanide	US\$ 3.01
Euro	US\$ 8.42
Ron	US\$ 5.23

A significant portion of the capital and operating costs are anticipated to be denominated in either the Romanian Ron or the Euro. We estimate that 64% of capital costs to completion and 81% of operating costs are denominated in the local currencies of either the Romanian Ron or the Euro. These include earthwork construction, concrete, cyanide, sodium metabisulfate, power costs, grinding media, wages and salaries.

**Foreign Currency Fluctuation**



Source: Bloomberg

## Expected Financing Plan

In 2009, management developed a new financing plan that assumes availability of senior debt financing in combination with equity and other potential financing sources in order to meet the Company's financing needs. The new plan incorporates recent developments in both the debt and equity markets.

- The estimated capital cost to complete the development of the Rosia Montana Project – including interest, financing and corporate costs – is approximately US\$1 billion. Management has taken into consideration fluctuations in foreign currencies and their impact on the capital cost to complete the Project. Based on current exchange rates (as of February 2010), the cost to construct the Project would be approximately US\$25 million higher today.
- The Company anticipates financing these costs with debt financing, including senior debt, mezzanine debt and vendor loans, along with silver sales and EU grants, with the balance to be raised through equity financing.
- The estimated capital cost to complete the Project does not include a provision for (i) a cost overrun facility, (ii) a financial guarantee (reclamation deposit), or (iii) a hedging program if required by the banks and agencies. These additional items could add US\$150 million to the financing plan.
- The Company holds an exploitation concession license with respect to the Rosia Montana Project, whose initial term expires in 2019. The mining plan for the Rosia Montana Project envisions a 16-year operating life plus additional time for closure and remediation activities. As part of the project financing, the banks will likely require confirmation that the mining license will be extended for at least one five-year term.

## Project Timeline

- The EIA was submitted in the second quarter of 2006.
- In January 2007, the Company received the list of official questions from the Romanian government, raised during the public consultation process.
- The Company responded to the questions in the form of an Annex to the EIA, in early May 2007.
- Technical Analysis Committee ("TAC") and Espoo Convention meetings went well during the third quarter of 2007, until TAC meetings were suspended in September 2007.

Once the EIA for the Project is approved by the Romanian government, in the absence of any other extraordinary events, legal or otherwise, management and its advisory team anticipate that it would take at least six months to:

- Complete the purchase of the outstanding properties;
- Receive all other permits and approvals, including initial construction permits; and
- Complete the control estimate and complete the financing.

Once construction of the mine begins, it is expected to take approximately 24 months to complete. Ultimately, the Romanian government determines the timing of issuance of the EIA approval and all other permits and approvals required for the Rosia Montana Project, subject to the Romanian courts dealing with litigation from NGOs in a timely manner.

## Outlook

Our key objectives include:

1. Obtaining approval of our EIA and all other required permits, which require acquisition of all surface rights;
2. Beginning construction of the new resettlement village at Piatra Alba;
3. Raising the required debt and equity to build the Project;
4. Beginning Project construction; and
5. Maximizing shareholder value, as the markets recognize project advancement, while ensuring that the Project benefits those in the community and the surrounding area to the maximum extent possible.

## Key Trends

In 2009, many commodity and stock market indices experienced historically high levels of volatility in the face of the global economic crisis. Financial market conditions improved in the second half of the year as global credit markets started to ease up, investor confidence began to return and many economies returned to positive growth.

During the year, the US dollar was generally in decline, primarily as a result of the low interest rates offered on the US dollar and concerns about the level of U.S. government borrowings and deficit.

As the price of gold has historically been inversely correlated to the US dollar, gold price volatility remained high in 2009, reaching a record level of \$1,215 per ounce. The average market price for the year was \$974 per ounce.

Prices in the precious metals market in 2010 will depend on whether the US dollar continues its year-end rally, and whether the central banks keep interest rates at record lows to support the economic growth. The global easing of monetary policy, as well as increases in announced government spending, could lead to higher inflation and US dollar depreciation in the coming years. That should have a positive impact on the gold price in the future and the long-term upward trend in prices should continue. However, subdued inflation rates and the recovering global economy could put downward pressure on the gold price in the future.

Overall, a lower US dollar should lead to higher costs in US dollar terms to construct and operate the Project, but will likely be more than offset by higher gold prices, resulting in margin expansion. Conversely, if the US dollar strengthens, the cost to construct and operate the Project should decrease, but gold prices could decline, resulting in margin contraction.

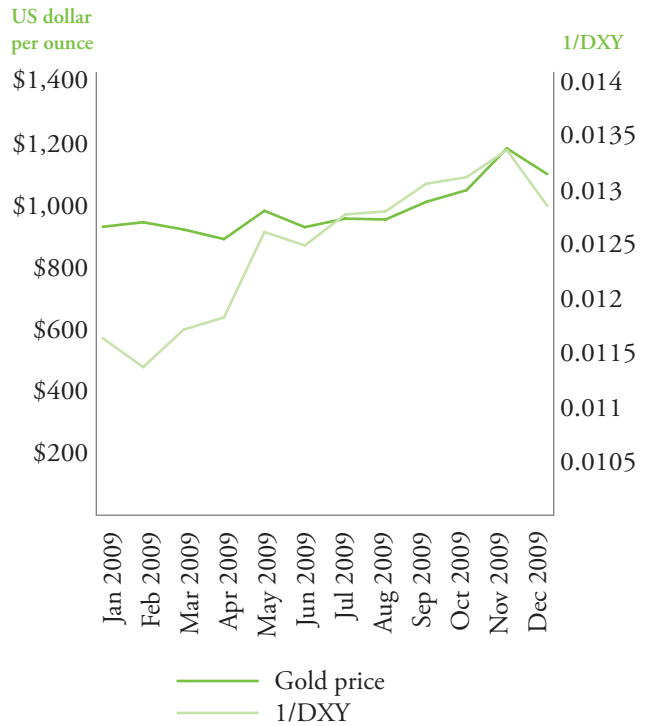
### Spot Gold Price

In US dollars per ounce



Source: Bloomberg

### Gold Price Correlation to the US Dollar



\*DXY is a geometrically-averaged calculation of six currencies weighted against the US dollar.

## Annual Summary

In thousands of Canadian dollars, except per share amounts	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Total expenses	\$ 22,064	\$ 13,767	\$ 15,089
Other income (expenses)	(4,322)	19,472	(4,279)
Loss	26,578	4,095	23,043
Loss per share (basic and diluted)	0.09	0.02	0.09
Total assets	658,694	530,135	507,955
Long-term liabilities	3,908	3,065	2,688
Investment in exploration and development including working capital changes	46,046	48,994	77,317
Cash flows from financing activities	\$ 182,736	\$ 1,097	\$ 170,448

- Total expenses in 2009 were higher (by \$8.3 million) than 2008 primarily due to an \$8.8 million charge resulting from non-recurring retiring allowances and settlement payments, including the expensing of share-based compensation for departed and departing senior employees and executives of the Company, partially offset by lower project financing costs (\$1.6 million).
- Total expenses in 2008 were lower (by \$1.3 million) than 2007 primarily due to lower corporate, general and administrative expenses (\$2.4 million) and lower severance costs (\$0.8 million), partially offset by higher stock-based compensation costs (\$0.5 million) and higher project financing costs (\$1.2 million).
- Other income (expenses) included interest income and foreign exchange gains and losses. The weakening of both the US dollar and the Euro against the Canadian dollar resulted in higher net foreign exchange losses in 2009 (by \$20.6 million) compared to 2008. Other income (expenses) is reduced further by lower interest income (\$3.2 million) due to lower interest rates compared to 2008.
- In 2008, the strengthening of both the US dollar and the Euro against the Canadian dollar resulted in higher net foreign exchange gains (by \$27.2 million) compared to 2007. The gains were partially offset by lower interest income (\$3.4 million) due to lower cash balances and lower interest rates.
- In 2009, the Company reported a higher loss (by \$22.5 million) compared to 2008 due to higher operating expenses of \$8.3 million, lower interest income of \$3.2 million, and foreign exchange swing of \$20.6 million, partially offset by lower income taxes of \$9.6 million.
- The lower loss for 2008 (by \$18.9 million) compared to 2007 is primarily due to a swing of \$27.2 million in foreign currency movements. The increase in foreign exchange gains was partially offset by an increase of \$6.1 million in income tax expense and total expenses (by \$1.3 million).
- The Company will continue to incur losses until Rosia Montana begins commercial production.

### *Total Assets*

- The increase in total assets from the years ended 2007 to 2009 relates to the 2007 and 2009 equity issues along with the exercise of stock options and warrants over the periods, which raised a total of \$354.3 million, to finance the advancement of the Company's key project, Rosia Montana.
- Total assets are expected to increase once the EIA is approved and the Company begins raising the necessary funds to develop Rosia Montana.

*Other Liabilities*

- Long-term liabilities on the Company's balance sheet are comprised of Deferred Share Units ("DSUs") (\$2.6 million) due to directors and officers of the Company and a fidelity bonus (\$1.3 million) that represents a retention bonus for Romanian employees. The DSUs are revalued at each balance sheet date based on the closing price at the period-end. The increase in Other Liabilities in 2009 compared to 2008 reflects the issuance of 68 thousand DSUs for the year and an increase in stock-based compensation due to the higher share price at the end of 2009 compared to 2008, partially offset by the DSUs settled (623 thousand units) in the year.

*Investment in Exploration and Development*

- The lower expenditure in 2009 compared to 2008 is due to higher foreign exchange gains recognized by the Romanian subsidiary and lower project management and engineering costs, partially offset by higher external communications and resettlement site construction costs.
- The lower expenditure in 2008 compared to 2007 is due to lower levels of activity in most areas as a result of the suspension of the permitting process.

**Results of Operations**

The results of operations are summarized in the following tables, which have been prepared in accordance with Canadian generally accepted accounting principles.

In thousands of Canadian dollars, except per share amounts	2009 Q4	2009 Q3	2009 Q2	2009 Q1
<b>Statements of Loss</b>				
Loss	\$ 10,729	\$ 7,082	\$ 1,798	\$ 6,969
Loss per share – basic and diluted	0.03	0.02	0.01	0.03
<b>Balance Sheets</b>				
Working capital	148,715	95,838	109,518	7,401
Total assets	658,694	608,399	624,991	522,618
<b>Statements of Cash Flows</b>				
Investments in development and exploration including working capital changes	13,004	10,689	11,194	11,159
Cash flow provided by financing activities	70,260	(435)	112,908	3

*Cash Flow from Financing Activities*

- The Company's primary source of liquidity has been the equity markets. The Company raised \$328.2 million over the past three years through three equity financings. The other source of liquidity is the exercise of warrants and stock options by employees of \$26 million.
- The cost to complete the Project was estimated at US\$876 million based on a revised cost estimate from March 2009 that used fourth quarter 2008 pricing. Management has taken into consideration fluctuations in the foreign currencies and their impact on the capital costs to complete the Project. Based on current exchange rates (as of February 2010), the cost to construct the Project would be approximately US\$25 million higher today, which is more than offset by higher gold prices during 2009. To complete the development of the Project, the Company will need additional external financing of approximately US\$1 billion. Management has developed a new financing plan that assumes availability of senior debt financing in combination with equity and other potential financing sources in order to meet the Company's financing needs. If the Company was unable to raise the required funds, it would seek strategic alternatives to move the Project towards development.

In thousands of Canadian dollars, except per share amounts	2008 Q4	2008 Q3	2008 Q2	2008 Q1
<b>Statements of Loss (Income)</b>				
Loss (Income)	\$ (3,958)	\$ 2,782	\$ 16,241	\$ (10,970)
Loss (Income) per share – basic and diluted	(0.02)	0.01	0.06	(0.04)
<b>Balance Sheets</b>				
Working capital	29,172	50,324	80,513	110,021
Total assets	530,135	508,010	513,965	521,269
<b>Statements of Cash Flows</b>				
Investments in development and exploration including working capital changes	8,171	19,237	4,375	17,211
Cash flow provided by financing activities	–	82	1,015	–

### Statements of Loss (Income)

In thousands of Canadian dollars, except per share amounts	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
Total operating expenses for the period	\$ 7,863	\$ 5,151	\$ 22,064	\$ 13,767
Loss (income) for the period	10,729	(3,958)	26,578	4,095
Loss (income) per share – basic and diluted	0.03	(0.02)	0.09	0.02

Total operating expenses for the three- and twelve-month periods ended December 31, 2009 increased from the corresponding periods in 2008 primarily due to a \$2.7 million (for the fourth quarter of 2009) and \$8.8 million (for the year ended 2009) charge resulting from non-recurring retiring allowances and settlement payments, including the expensing of share-based compensation for departed and departing senior employees and executives of the Company.

Loss for the fourth quarter of 2009 increased from the same period in 2008 mainly due to an increase in operating costs of \$2.7 million and a swing of \$11.4 million in foreign currency movement. For the year ended December 31, 2009, the Company reported a higher loss compared to 2008 due to higher operating expenses of \$8.3 million, lower interest income of \$3.2 million, and foreign exchange swing of \$20.6 million, partially offset by lower income taxes of \$9.6 million.

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

## Expenses

### Corporate, General and Administrative

In thousands of Canadian dollars	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
Finance	\$ 350	\$ 234	\$ 823	\$ 1,249
External communications	32	122	411	736
Information technology	56	116	337	497
Legal	102	144	638	910
Payroll	3,972	985	8,636	3,143
Other	599	384	2,035	1,454
<b>Corporate, general and administrative expenses</b>	<b>\$ 5,111</b>	<b>\$ 1,985</b>	<b>\$ 12,880</b>	<b>\$ 7,989</b>

Corporate, general and administrative expenses are those costs incurred by the corporate office in Toronto. For the three- and twelve-month periods ended December 31, 2009, corporate, general and administrative expenses increased from the same periods in 2008 primarily due to the non-recurring retiring allowance of \$2.7 million (for the fourth quarter of 2009)

and \$4.9 million (for the year ended 2009) paid to the departed and departing executives of the Company. Corporate, general and administrative costs are anticipated to rise (excluding the cost of non-recurring items) once the Rosia Montana Project is permitted and the Company increases its staffing for construction and operations.

### Stock-Based Compensation

In thousands of Canadian dollars	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
DSUs – expensed	\$ 1,908	\$ 440	\$ 2,668	\$ 564
Stock option compensation – expensed	634	516	4,192	2,056
<b>Stock-based compensation – expensed</b>	<b>\$ 2,542</b>	<b>\$ 956</b>	<b>\$ 6,860</b>	<b>\$ 2,620</b>
DSUs – capitalized	\$ 239	\$ 51	\$ 308	\$ 55
Stock option compensation – capitalized	433	3,889	1,211	4,754
<b>Stock-based compensation – capitalized</b>	<b>\$ 672</b>	<b>\$ 3,940</b>	<b>\$ 1,519</b>	<b>\$ 4,809</b>

### DSU Compensation

Number of DSUs issued	9,989	537,368	68,035	579,687
Average value ascribed to each DSU issued	\$ 4.38	\$ 1.19	\$ 2.43	\$ 1.26

DSU costs for the three- and twelve-month periods ended December 31, 2009 reflect the increase in the Company's share price since the beginning of the periods and the issuance of 10 thousand DSUs during the fourth quarter of 2009 and

68 thousand units during the year. The Company's closing share price at the end of 2009 was \$4.37 per share, while at September 30, 2009 and December 31, 2008 the closing share price was \$2.16 and \$1.52, respectively.

Initially valued at the market price of the stock at date of issue, DSUs are revalued each period based on the closing share price at the period end, with the difference between the total value of the DSUs at period end compared to the value at the end of the previous period. If the share price declines, the lower value of the DSUs is credited against costs during the period. If the value is higher, the difference is charged

to the Statement of Loss, increasing costs for the period, or capitalized to Mineral Properties. Overall, for the three- and twelve-month periods ended December 31, 2009, our share price increased by \$2.21 compared to September 30, 2009 and \$2.85 compared to December 31, 2008, while for the same periods in 2008, our share price decreased by \$0.53 from September 30, 2008 and \$0.45 compared to December 31, 2007.

### Stock Option Compensation

	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
Number of stock options granted	1,720,000	5,305,000	3,870,000	11,240,000
Average value ascribed to each regular vesting option granted	\$ 2.46	\$ 0.68	\$ 2.02	\$ 1.02
Options granted to corporate employees, consultants, officers, and directors	780,000	30,000	2,130,000	2,130,000
Options granted to development project employees and consultants	940,000	5,275,000	1,740,000	9,110,000

The estimated fair value of stock options is amortized over the period in which the options vest, which is normally three years. For those options which vest on a single or multiple dates, either on issuance or on meeting milestones (the "measurement date"), the entire fair value of the vesting options is recognized immediately on the measurement date.

Of the 3.87 million options issued during the year ended December 31, 2009, 2.12 million vest over a three-year period and the remainder vest based on the achievement of certain milestones. The fair value of the options that vest upon the achievement of milestones will be recognized and capitalized as the milestones are achieved and the value can be reasonably measured. As of December 31, 2009, the amount recognized was \$0.4 million.

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

### Project Financing Costs

	3 months ended December 31,		12 months ended December 31,	
In thousands of Canadian dollars	2009	2008	2009	2008
Project financing costs	\$ 148	\$ 2,136	\$ 571	\$ 2,186

Project financing activities were placed on hold in the fall of 2007 after the suspension of the permitting process, but resumed in September 2008 in anticipation of the restart of permitting activities and the requirement to complete the financing. Except for a one-time charge of US\$1.5 million in the fourth quarter of 2008, representing the fair value of vested stock purchase warrants related to the termination

of mandate letters with two international financial institutions, the project financing costs for the three- and twelve-month periods ended December 31, 2009 were comparable to the same periods in 2008.

Project financing activities include advisory services for the various facilities under our financing plan.

**Severance and Termination Costs**

Severance costs for the year ended December 31, 2009 represent the settlement costs paid to departed employees.

In 2007, the Company announced and enacted plans to scale back activities in Romania. The Company paid \$1.3 million in termination benefits in 2008. The remaining balance of \$0.8 million was paid in full in 2009.

**Interest Income**

In thousands of Canadian dollars	<b>3 months ended December 31,</b>		<b>12 months ended December 31,</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Interest income	<b>\$ 101</b>	\$ 525	<b>\$ 404</b>	\$ 3,647

For the three- and twelve-month periods ended December 31, 2009, the lower interest income is a result of substantially lower interest rates than in the same periods of 2008.

The annual average yield to maturity on the Company's cash, cash equivalents and short-term investments was 0.45% in 2009 versus 3.35% in 2008.

The Company is focused on minimizing credit risk and is therefore foregoing higher yields on its investments and investing predominantly in government guaranteed instruments. Approximately 89% of the Company's cash balances are invested in government guaranteed instruments, with the balance invested in term deposits with major Canadian banks.

**Foreign Exchange**

In thousands of Canadian dollars	<b>3 months ended December 31,</b>		<b>12 months ended December 31,</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Foreign exchange loss (gain) – realized	<b>\$ 975</b>	\$ (5,564)	<b>\$ 2,260</b>	\$ (10,732)
Foreign exchange loss (gain) – unrealized	<b>1,804</b>	(3,029)	<b>2,466</b>	(5,093)
<b>Total foreign exchange loss (gain)</b>	<b>\$ 2,779</b>	\$ (8,593)	<b>\$ 4,726</b>	\$ (15,825)

During the year, the Company converted the majority of the cash raised from two private placements and a public offering to foreign currencies to match anticipated foreign-denominated expenditures. Since the purchase of the foreign currencies, the Canadian dollar strengthened relative to the foreign currencies acquired, resulting in realized and unrealized foreign exchange losses for the three- and twelve-month periods ended December 31, 2009.

The Company maintains a Canadian dollar cash position to fund corporate, general and administrative activities, while the majority of its cash resources are in foreign currencies.

The Company expects to continue to report foreign currency gains and losses, as it continues to hold foreign currencies.

**Taxes**

During the first quarter of 2008, the Company received a tax assessment for \$4.8 million related to a Romanian tax audit completed during the first quarter of 2008. The Company, having accrued in 2006 its then-estimated tax liability, accrued

an additional \$3.7 million in respect of the assessment, which arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt. During the fourth quarter of 2009, the Company received a tax assessment in the amount of \$192,000 related to interest and penalties related to the 2007 taxation year.

In June 2008, the Company received a tax assessment for \$9.8 million related to another tax audit, for the years 2003 and 2004, initiated and completed during the second quarter of 2008. This assessment also arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt.

All tax assessments have been paid and provided for in the 2007, 2008 and 2009 financial statements. Based on the advice of its professional tax advisors, the Company believes that the tax authorities have misapplied the legislation and it is vigorously contesting the State's position through the courts.

## Investing Activities

The most significant ongoing investing activities are for our Rosia Montana development project in Romania. Most of the expenditures to date have been for identifying and defining the size of the four ore bodies, engineering to design the size and scope of the Project, environmental assessment and permitting, social support to local communities, and surface rights/property acquisition. Once we receive our construction permit, the nature and magnitude of the expenditures will increase as we build roads, production facilities, open pits, tailings management facilities and associated infrastructure.

## Mineral Properties

We capitalize all costs incurred in Romania related to our development and exploration projects – Rosia Montana, Bucium and Baisoara – to Mineral Properties.

Listed below is a summary of expenditures at Rosia Montana for the three- and twelve-month periods ended December 31, 2009 and 2008.

In thousands of Canadian dollars	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
Finance and administration	\$ 3,980	\$ 8,806	\$ 4,840	\$ 18,614
External communications	4,214	3,349	12,246	7,967
Legal	1,059	1,538	4,358	4,446
Permitting	895	1,016	2,686	2,887
Community development	72	2,919	2,685	22,310
Project management and engineering	2,425	4,569	6,461	10,536
Exploration – Rosia Montana	362	262	1,055	675
Exploration – Bucium	1	1	1	83
Exploration – Baisoara	25	49	130	205
Capitalized depreciation net of disposals	(98)	(122)	(430)	(504)
Capitalized stock-based compensation	(672)	(3,940)	(1,519)	(4,809)
Net adjustments of resettlement liabilities and construction in progress	4,400	(4,382)	11,047	(13,876)
<b>Total exploration and development expenditures</b>	<b>\$ 16,663</b>	<b>\$ 14,065</b>	<b>\$ 43,560</b>	<b>\$ 48,534</b>

During the three- and twelve-month periods ended December 31, 2009, finance and administration costs decreased compared to the corresponding periods in 2008, primarily due to foreign exchange gains on trade payables and resettlement obligations. During the three- and twelve-month periods ended December 31, 2009, both the US dollar and the Euro weakened against the Canadian dollar, resulting in foreign exchange gains capitalized by the Romanian subsidiary. As at December 31, 2009 and 2008, the Company's Romanian subsidiary had outstanding foreign-denominated liabilities for service and goods providers and resettlement obligations.

External communications costs increased for the three- and twelve-month periods ended December 31, 2009 compared to the same periods last year, mainly due to the media campaign initiated in the first half of 2009. The Company entered into a professional service agreement with an international communication firm for a term of three years, from the commencement date of March 1, 2009 until February 29, 2012. The agreed-upon fee is comprised of an annual fee and success fee payable at the end of the three-year term, dependent upon the fulfillment of certain criteria.

Community development costs decreased for the three- and twelve-month periods ended December 31, 2009 compared to the same periods in 2008, primarily due to suspension of the surface rights acquisition program in February 2008. When the legal titles of the resettlement properties are transferred to the property owners, the Company reduces its resettlement liabilities and corresponding assets recorded as mineral properties and construction in progress.

The base budget and forecast for 2010 for the Rosia Montana Project totals \$38.4 million. This budget includes only those expenditures and commitments required to maintain the value of our investment in mineral properties and to move

the Project through EIA approval. Once the EIA is approved, the acquisition of remaining surface rights, completion of the control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits, are expected to cost approximately \$93 million.

No additional work is planned on the Bucium property until the exploration license is converted to an exploitation license and the Rosia Montana EIA is approved. The government has indicated that a decision on the conversion of the Bucium exploration license to an exploitation license will not be made until a decision on the Rosia Montana Project is made.

### Purchase of Capital Assets

In thousands of Canadian dollars	3 months ended December 31,		12 months ended December 31,	
	2009	2008	2009	2008
Resettlement site development costs	\$ 246	\$ 1,655	\$ 5,838	\$ 8,194
Investment in long-lead-time equipment	380	7,358	16,173	18,798
Other	85	130	163	248
<b>Total investment in capital assets</b>	<b>\$ 711</b>	<b>\$ 9,143</b>	<b>\$ 22,174</b>	<b>\$ 27,240</b>
Depreciation and disposal – expensed	\$ 62	\$ 74	\$ 237	\$ 304
Depreciation and disposal – capitalized to mineral properties	\$ 98	\$ 122	\$ 430	\$ 504

The construction of all 125 homes at the Recea resettlement site in Alba Iulia has been completed and 124 homes have been handed over to their new owners. The last home will be handed over, and legal transfer of the seven remaining homes will be finalized, in the first quarter of 2010.

The Company is currently working to obtain permits for the construction of Pietra Alba, the new resettlement village to be built in Rosia Montana. Delays in the permitting process have changed the expected time to obtain the construction permit to the second quarter of 2010. Planning is advancing in order to allow mobilization immediately upon granting of the construction permits.

The final installments for the mills are expected to be made in 2010 (\$5 million) and 2011 (\$0.1 million), at which point the grinding area systems and crushing facilities will be fully paid for and in the possession of the Company. In order to minimize the transportation, storage expenditures and other costs, the Company evaluated various strategies for storing completed equipment and, based on the final evaluation, the equipment is currently stored at three main locations in accordance with the manufacturer's specifications.

## Cash Flow Statement

### *Liquidity and Capital Resources*

Our only sources of liquidity until we receive our environmental permits for Rosia Montana are our cash balance, bridge financing, exercise of stock options and warrants outstanding, and the equity markets. The cost to complete the Project was estimated at US\$876 million based on a revised cost estimate in March 2009. Management has taken into consideration fluctuations in the foreign currencies and their impact on the capital costs to complete the Project. Based on current exchange rates (as of February 2010), the cost to construct the Project would be approximately US\$25 million higher today, which is more than offset by higher gold prices in 2009. To complete the development of the Project, the Company will need additional external financing of approximately US\$1 billion, to fund capital costs of US\$876 million plus working capital, interest, financing and corporate costs of US\$124 million. Management has developed a new financing plan that assumes the availability of senior debt financing in combination with equity and other potential financing sources in order to meet the Company's financing needs. If the Company was unable to raise the required funds, it would seek strategic alternatives to move the Project towards development.

In 2009, the Company raised \$180 million, net of acquisition costs, through two private placements and a public equity offering.

As at December 31, 2009, we had cash, cash equivalents, and short-term investments of \$162.3 million compared to \$72.2 million at December 31, 2008. Substantially all of these amounts are invested in government guaranteed investments.

The base budget and forecast for 2010 on the Rosia Montana Project totals \$38.4 million. This budget includes only those expenditures and commitments to maintain the value of our investment in mineral properties and to move the Project through EIA approval. Once the EIA is approved, the acquisition of remaining surface rights, completion of the control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits, are expected to cost approximately \$93 million. Corporate overhead costs are expected to total an additional \$6 million.

The Company manages its foreign currency risks through matching its expected foreign-denominated expenditures with foreign currency investments. The Company has not entered into any derivative hedging activities. The Company maintains Canadian dollar investments to fund corporate costs, while most investments are denominated in either US dollars or Euros to match planned foreign currency expenditures. The Company incurs foreign currency gains

and losses on the foreign-denominated investments as the currencies move against each other. The Company will continue to experience foreign exchange gains and losses as long as it maintains foreign currency investments.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three-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 \$0.3 million.
- For short-term investments, a plus or minus 1% change in earned interest rates would affect net income by \$0.1 million.
- The Company holds significant balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. A plus or minus 1% change in foreign exchange rates would affect net income by \$1.5 million.

The Company's objective when managing capital is to safeguard its accumulated capital in order to fund development of its Rosia Montana Project. The Company manages its capital structure and makes adjustments to it based on the level of funds on hand and anticipated future expenditures. 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 Rosia Montana Project, there are no assurances that these initiatives will be successful. To safeguard capital and mitigate currency risk, the Company invests its surplus capital in highly liquid, highly rated financial instruments that reflect the currency of the planned expenditure.

### *Working Capital*

As at December 31, 2009, we had working capital of \$148.7 million versus \$29.2 million as at December 31, 2008. The working capital increased mainly as a result of the equity financings completed in 2009, with net proceeds of \$180 million.

As at December 31, 2009, we had current liabilities of \$15.8 million, of which \$5.4 million relates to our resettlement obligations stemming from the acquisition of homes in the Project area. The construction of all 125 homes at the Recea resettlement site in Alba Iulia has been completed and 124 homes have been handed over to their new owners. The last home will be handed over, and legal transfer of the seven remaining homes will be completed, in the first quarter of 2010. The Company is currently working to obtain permits for the construction of Piatra Alba, the new resettlement village to be built in Rosia Montana.

### *Net Change in Non-Cash Working Capital*

Operating non-cash working capital decreased for the three- and twelve-month periods ended December 31, 2009 compared to the same periods in 2008 due to a decrease in payables and accrued liabilities.

The decrease in investing non-cash working capital for the three- and twelve-month periods ended December 31, 2009 compared to the same periods in 2008 is primarily due to a decrease in the Romanian subsidiary's payables and accrued liabilities, partially offset by unrealized foreign exchange loss on short-term investments.

### **Related Party Transactions**

For the year ended December 31, 2009, the Company paid \$152 thousand (2008 – \$4 thousand) to two directors of the Company for consultation services provided to the Company.

During the year, the Company received a formal offer to purchase the shares held in RMGC by two of its minority shareholders (the "Minority Shareholders"), each of whom owned 23,967 common shares in RMGC, representing 0.23% each of its share capital. The Company responded to the offer of the Minority Shareholders and has purchased 47,934 common shares of RMGC held by the Minority Shareholders for 222,708 shares of Gabriel and US\$0.8 million in cash. As a result of these transactions, the Company's ownership interest in RMGC increased from 80% to 80.46%.

In December 2004, the Company loaned a total of US\$971 thousand to the four minority shareholders of RMGC who held an aggregate of 20% of the shares of RMGC, to facilitate a statutory requirement to increase RMGC's total share capital. During 2009, the Company purchased shares held in RMGC by two of its minority shareholders. Upon completion of this transaction, the outstanding indebtedness of the two minority shareholders of \$23 thousand was deemed to be paid in full.

In 2009, the Company loaned a further US\$40 million to the remaining two Minority Shareholders of RMGC to facilitate another statutory share capital increase in RMGC.

The loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans and related minority interest contribution have been offset on the balance sheet until such time as the loans are repaid. Once the loans are repaid the minority interest component will be reflected on the balance sheet.

### **Resettlement Liabilities**

During the fourth quarter of 2006, the Company recommenced purchasing homes in the Project area. Residents had two choices. They could either 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 the Company at one of the two new 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 cost of newly built houses is capitalized as construction in progress. After the transfer of legal title of the property is completed, the Company reduces the amounts capitalized as construction in progress and also 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, 2009, the Company had accrued resettlement liabilities totalling \$5.4 million (December 31, 2008 – \$30.2 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 has been completed and 124 homes have been handed over to their new owners. The last home will be handed over, and legal transfer of the seven remaining homes will be completed, in the first quarter of 2010. The Company is currently working to obtain permits for the construction of Piatra Alba, the new resettlement village to be built in Rosia Montana. All 24 property owners who chose the Piatra Alba resettlement site have signed a three-year extension contract. As a result of the delay in delivery of homes, the Company paid or accrued a penalty of 9% (for Recea) and up to 20% (for Piatra Alba) of the agreed-upon unpaid property value per year of delay, as required by the agreement including all amendments.

As at December 31, 2009, the Company has accrued \$0.4 million (December 31, 2008 – \$1.2 million), representing its total estimated delay penalty. During the year ended December 31, 2009, the Company paid \$0.8 million of delay penalties (2008 – \$0.7 million).

## Contractual Obligations

The Company, through its wholly-owned subsidiary Rom Aur SRL (“Rom Aur”), holds an exploration license with respect to the Baisoara property in Western Romania. The license is for an initial term of five years and expires in July 2011. Upon granting of the license, the Company committed to spend US\$3.2 million over the term of the license. Due to the delay in the Rosia Montana permitting process, the Company has reduced the exploration expenditure for Baisoara to the level required to maintain the license and permit in good standing.

The Company and its subsidiaries have a number of agreements with arm’s-length third parties who provide a wide range of goods and services which totalled \$14.7 million at December 31, 2009 (December 31, 2008 – \$6.6 million). 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.

During 2007, the Company entered into purchase agreements for long-lead-time equipment, the cost of which was to be paid over several years beginning in 2007. As at December 31, 2009, outstanding commitments under such agreements totalled \$5.1 million (December 31, 2008 – \$27.7 million). No further long-lead-time equipment orders are expected to be placed until the EIA is approved; however, the reported commitment expressed in Canadian dollars will fluctuate, as the obligations are denominated in foreign currencies.

The following is a summary of contractual commitments of the Company, including payments due for each of the next five years and thereafter:

	Total	2010	2011	2012	2013	2014 and thereafter
Baisoara exploration license	\$ 2,841	\$ 179	\$ 2,662	\$ –	\$ –	\$ –
Resettlement	4,576	–	4,576	–	–	–
Goods and services	14,652	12,413	688	1,217	8	326
Long-lead-time equipment	5,147	5,049	98	–	–	–
Rosia Montana exploitation license	2,143	214	214	214	214	1,287
Surface concession rights	861	21	21	21	21	777
Lease agreements	815	134	513	168	–	–
<b>Total commitments</b>	<b>\$ 31,035</b>	<b>\$ 18,010</b>	<b>\$ 8,772</b>	<b>\$ 1,620</b>	<b>\$ 243</b>	<b>\$ 2,390</b>

The following is a summary of the long-lead-time equipment orders and the payment status:

	2009	2008
<b>Total purchase agreements</b>		
Grinding area systems	\$ 41,731	\$ 41,237
Crusher facilities	3,961	3,923
Foreign exchange movement	3,023	9,681
	<b>48,715</b>	<b>54,841</b>
<b>Amount paid to date</b>		
Grinding area systems	(37,011)	(20,436)
Crusher facilities	(3,881)	(1,896)
Foreign exchange movement	(2,676)	(4,769)
<b>Outstanding payment obligation</b>	<b>\$ 5,147</b>	<b>\$ 27,740</b>

## Subsequent Events

Subsequent to year end, a member of the Romanian Parliament filed two claims in respect of the share capital increase completed in December 2009. The first claim asserted that the transaction was not registered within the legal deadline; this claim was dismissed by the Alba County court. The second claim also challenges the legality of the share capital increase process and further requests the dissolution of RMGC due to an alleged delay in replenishment of the net assets. This case is also before the Alba County courts and the hearing on its merits has been postponed after the first hearing due to the absence of the plaintiff. The Company and its legal advisors are confident that it has complied with all of its obligations to replenish the net asset value of RMGC as required by Romanian Company Law. The Company believes it has strong arguments to defend the case on similar grounds as the first case.

## Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 year. Significant estimates and assumptions include those related to the recoverability of mineral properties, benefits of future income tax assets, estimated useful lives of capital assets, stock-based compensation and warrant valuation 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. A summary of the critical accounting estimates follows.

### *Going Concern*

The underlying value of the Company's mineral properties is dependent upon the existence and economic recovery of such 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, and changes in existing government regulations – for example, a ban on the use of cyanide in mining, re-designation of the Project area as an archaeological site of national importance, or 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. The suspension of the EIA process by the former Minister of Environment and Sustainable Development in September 2007 demonstrates the significant risks that this Project faces. These risks may adversely

affect the investment and may result in the impairment or loss of all or part of the Company's investment.

Management has developed a new financing plan that assumes the availability of senior debt financing in combination with equity and other potential financing sources in order to meet the Company's financing needs. The new plan incorporates recent developments in both the debt and equity markets. The timeline from the restart of the permitting process until receipt of construction permits might be extended as the Company may pursue certain activities sequentially that had previously been planned to run in parallel or, alternatively, construction may not begin immediately after receipt of construction permits if financing has not been completed. During the year, the Company raised \$180 million, net of acquisition costs, through two private placements and a public equity offering and as at December 31, 2009, had \$149 million in working capital. As at December 31, 2009, 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.

The base budget and forecast for 2010 for the Rosia Montana Project totals \$38.4 million. This budget includes only those expenditures and commitments to maintain the value of our investment in mineral properties and to move the Project through EIA approval. Once the EIA is approved, the acquisition of remaining surface rights, completion of the control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits, are expected to cost approximately \$93 million. Corporate overhead costs are expected to total an additional \$6 million.

### *Mineral Properties*

We have determined that the area covered by the Rosia Montana exploitation license contains economically recoverable reserves. The ultimate recoverability of the \$430.6 million carrying value at December 31, 2009 plus related capital assets is dependent upon our ability to obtain the necessary permits and financing to complete the development and commence profitable production – or alternatively, upon our ability to dispose of our interest on an advantageous basis.

A scoping study was completed to determine the economic potential of the Bucium license area. Once again, the recoverability of the \$10.5 million carrying value at December 31, 2009 plus related capital assets of this exploration property is dependent upon the ultimate discovery of economically recoverable reserves, our ability to obtain necessary permits and financing to complete the development and future profitable production – or alternatively, upon our ability to dispose of our interest in the license on an advantageous basis.

Changes in future conditions – for example a ban on cyanide in the mining industry – could require material write-downs of the Rosia Montana Project and/or the Bucium carrying value.

As part of management’s annual 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 CICA Section 3063, “Impairment of Long-Lived Assets”. Since the fall of 2007, review of the Project’s EIA has been suspended as a result of a decision taken by the former Romanian Minister of Environment. Since that time, management has worked diligently to advocate in favour of a restart of the EIA review process and advance the permitting process for the Project. The change in government in December 2009 has resulted in a more active dialogue with senior members of the government and key officials to move the Project forward. Upon completing the detailed probability weighted cash flow analysis using estimated future prices, mineral resources, operating and capital costs on an undiscounted basis, management concluded that the Project is not impaired as at December 31, 2009. While management views the permitting delays as temporary, management will continue to assess on a regular basis whether or not impairment indicators are present and if the Project should be tested for impairment based on criteria established in the CICA Handbook.

### *Share Purchase Warrants*

The value assigned to the purchase warrants represents an allocated amount from the net proceeds of a private placement completed in December 2009. The allocated amount is determined based on the relative fair value of the warrants calculated using an option pricing model.

### *Stock-Based Compensation*

Stock-based compensation relating to stock options is estimated based on fair value at the grant or milestone achievement date, and charged to the Statement of Loss or capitalized to Mineral Properties on the Balance Sheet over the vesting period.

Stock-based compensation relating to deferred share units is calculated based on the quoted market value of the common share, and charged to the Statement of Loss or capitalized to Mineral Properties on the Balance Sheet. Deferred share units (“DSUs”) are revalued each period end based on the closing share price at the period end, with the difference between the fair value of the DSUs at period end compared to the fair value at the end of the previous period. If the share price declines, the lower value of the DSUs is credited against costs during the period. If the share price is higher, the difference is

charged to the Statement of Loss and capitalized to Mineral Properties, increasing costs for the period.

### *Income Taxes*

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. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not to be realized.

The Company has subsidiaries in countries that have differing tax laws and rates, primarily Canada and 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 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.

During the first quarter of 2008, the Company received a tax assessment for \$4.8 million related to a Romanian tax audit completed during the first quarter of 2008. The Company, having accrued in 2006 its then-estimated tax liability, accrued an additional \$3.7 million in respect of the assessment, which arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt. During the fourth quarter of 2009, the Company received a tax assessment in the amount of \$192,000 for interest and penalties related to the 2007 taxation year.

In June 2008, the Company received a tax assessment for \$9.8 million related to another tax audit, for the years 2003 and 2004, initiated and completed during the second quarter of 2008. This assessment also arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt.

All tax assessments have been paid and provided for in the 2007, 2008 and 2009 financial statements. Based on the advice of its professional tax advisors, the Company believes that the tax authorities have misapplied the legislation and it is vigorously contesting the State’s position through the courts.

## Risks and Uncertainties

### *Political and Economic Risks of Doing Business in Romania*

As all of Gabriel's property interests are located in Romania, it is subject to certain risks, including possible political or economic instability, which may result in the impairment or loss of mineral concessions or other mineral rights. Mineral exploration and mining activities may be affected in varying degrees by political instability and government regulations relating to the mining industry, which could include cancellation or renegotiation of mineral concessions and other contracts, changes in Romanian domestic laws or regulations, changes in tax laws, royalty and tax increases, restrictions on production, price controls, expropriation of property, fluctuations in foreign currency, foreign exchange controls, import and export regulations, restrictions on the export of gold, restrictions on the ability to repatriate earnings and pay dividends offshore, restrictions on the ability to hold foreign currencies in offshore bank accounts, environmental legislation, employment practices and mine safety. There can be no assurance that such restrictions and controls will not be imposed in the future and such restrictions, controls or fluctuations may materially affect Gabriel's financial position as well as Gabriel's ability to develop its mineral properties. In the event of a dispute regarding any of these matters, Gabriel may be subject to the jurisdiction of courts outside of Canada, which could have adverse implications for the outcome. Any changes in laws, rules or regulations, policies or shifts in political attitudes regarding foreign direct investment in the Romanian mining industry are beyond Gabriel's control and may adversely affect its business.

Romania currently has a coalition government made up of members of two political parties and independent minorities' representatives. Due to the inherent instability of coalition governments, there is a significant risk that the current government may fall, resulting in the need to call new general elections. Such circumstances are beyond Gabriel's control and may have a negative impact on the development of the Rosia Montana Project and may result in delays in the permitting process, or result in additional costs and expenses for the Company.

### *Project Approval Risks*

#### **General**

Gabriel must obtain a large number of permits, approvals and authorizations from the local, county and federal levels of the government of Romania in order to proceed with the development, construction and operation of the Rosia Montana Project. These approvals and authorizations may require amendments to existing legislative or regulatory frameworks by the Romanian federal, regional, county or

local governments in order to complete the permitting and financing of the Rosia Montana Project.

No modern mine has ever been permitted, constructed or operated in Romania. The existing EU and Romanian laws relating to the permitting of a large-scale industrial project like Rosia Montana are being applied for the first time in Romania in this case. As the first company to attempt to permit a modern mine in Romania, there are significant risks that the governmental review and approval process and actions with respect to permitting could be delayed due to circumstances beyond Gabriel's control.

#### **Environmental Impact Assessment**

The environmental approval is one of the most important approvals Gabriel must obtain. In addition to complying with all Romanian laws and regulations, the EIA for the Rosia Montana Project must comply with all EU guidelines and directives. There are significant risks that the governmental review and approval process could continue to be delayed due to circumstances beyond Gabriel's control and any such delays could negatively impact Gabriel's development plans, prevent the development of the Rosia Montana Project, or result in additional expenses for the Company.

On September 12, 2007, the Ministry of Environment suspended the TAC review process for the EIA for the Rosia Montana Project. On November 16, 2007, Gabriel initiated legal action in the Bucharest Court of Appeal against the Ministry of Environment, the Minister of Environment and the Secretary of State, seeking an order of the court compelling the Ministry of Environment to reinstitute the TAC review process. On July 1, 2009, the Bucharest Court of Appeal dismissed Gabriel's claim, relying upon a procedural exception of the Ministry of Environment, without addressing the merits of the claim itself. Gabriel filed its final appeal on this case in December 2009. Notwithstanding the appointment of a new Romanian government and Minister of Environment in early 2009 and again in early 2010, the TAC review process remains suspended as the latest Minister of Environment has taken the same position as the former Minister of Environment with respect to the necessity of having an urbanism certificate in place in order to conduct the TAC review process. It is not possible to determine if and when the TAC review process may be recommenced. There are significant risks that the resolution of Gabriel's legal action seeking to recommence the TAC review process could be delayed due to circumstances beyond Gabriel's control, or that the Supreme Court of Romania will not grant the appeal requested by Gabriel, and any such delays or negative court decisions could negatively impact Gabriel's development plans, prevent the development of the Rosia Montana Project, or result in additional expenses for the Company.

### **Archaeological Discharge**

The validity of the archaeological discharge certificates previously issued to RMGC are the subject of a series of legal actions initiated by Alburnus Maior and supported by other NGOs. The court challenges have been commenced against the Ministry of Culture and Religious Affairs, the governmental authority issuing the discharge certificates, not against RMGC. In December 2008, one of the archaeological discharge certificate issued to RMGC was annulled by the Romanian courts. Gabriel will reapply for a new discharge certificate but there can be no guarantee that this new application will be approved or that a new discharge certificate will be issued in a timely manner. In addition, any further successful legal challenges to the validity of any archaeological discharge certificate could negatively impact Gabriel's development plans, require additional work and reapplication for discharge certificates, result in additional delays and expenses for the Company, or prevent the development of the Rosia Montana Project.

### **Land Use Regulations**

Updated and amended land use regulations, incorporating the changes made to the design of the Rosia Montana Project since 2002, must be approved by the local council of Rosia Montana. Under Romanian law, urbanism plans should be renewed every 10 years; therefore, existing land use regulations may become the subject of update and amendment by the relevant local councils. Prior to presentation to the local council of Rosia Montana for approval, an environmental endorsement of the updated land use regulations must be obtained. There are significant risks that the updating and amending of the land use regulations, or obtaining the environmental endorsement, could be delayed due to circumstances beyond Gabriel's control, and any such delays could negatively impact Gabriel's development plans, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project. In addition, the local council of Rosia Montana must approve new land use regulations for the portion of the village of Rosia Montana designated as a historical zone/protected area. There can be no assurance that such updated or amended land use regulations will be passed in the appropriate form or in a timely fashion and any such delays could negatively impact Gabriel's development plans, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project.

### **Risk Associated with Acquisition of Surface Rights and Resettlement and Relocation**

Gabriel must acquire all necessary surface rights over the footprint of the new mine in order to apply for its construction permits and obtain financing for construction of the new mine

at Rosia Montana. This process involves the acquisition of properties owned by residents in the Rosia Montana and Corna valleys, the construction of a resettlement site in Piatra Alba to house those residents of Rosia Montana wishing to relocate there, as well as the acquisition and replacement of all public buildings, social facilities and other structures in the new village of Piatra Alba. There can be no assurance that Gabriel will acquire all necessary surface rights, or acquire such rights at prices currently contemplated. There are significant risks that the acquisition of all necessary surface rights could be delayed due to circumstances beyond Gabriel's control and any such delays could negatively impact Gabriel's development plans, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project.

### **Project Development Risks**

There are significant risks that the commencement of construction of the new mine could be delayed due to circumstances beyond Gabriel's control. Such risks include delays in acquiring all necessary surface rights, delays in completing the acquisition, permitting and construction of the new Piatra Alba resettlement site, delays in obtaining all zoning, land use regulations, environmental, construction and other required permits, approvals and authorizations required to construct and operate the new mine, delays in finalizing detailed engineering and a definitive construction contract, construction cost overruns, availability of all necessary process plant and mining equipment, availability of all necessary engineering services, technical trades and operating personnel, as well as unforeseen difficulties encountered during the construction and commissioning process. In addition, continued opposition to the Rosia Montana Project by the NGOs, academics and other special interest groups could contribute to such delays, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project.

### *Project Financing Risks*

While Gabriel has sufficient financial resources to fund its current permitting activities, it does not have the financial resources to complete the permitting process, acquire all necessary surface rights, or construct the mine at Rosia Montana. Gabriel will require significant additional financing from external sources to meet its capital requirements. Although Gabriel has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that it will obtain adequate financing in the future or that the terms of such financing will be favourable to it. A period of continued uncertainty in the world credit markets could make the project debt component of the financing more expensive than anticipated or, in certain cases, unavailable. It is not uncommon for financial institutions to

require some form of cost overrun facility, a price guarantee (hedging) program and/or a completion guarantee in association with the provision of project debt finance. The amount and cost of the price guarantee is a function of gold prices at the time a hedging program is executed. If gold prices were to fall between the date of this Annual Report and the execution of the hedging program, it could have a significant impact on the cost of any such hedging program. Failure to obtain such additional financing could result in delay or indefinite postponement of further development of Gabriel's projects with the possible loss of such properties.

In the past few years, gold prices have risen from the low of US\$300 per ounce to over US\$1,200 per ounce, resulting in higher share prices for gold equities. There can be no assurance gold prices will remain high, especially during the time Gabriel will need to raise debt and equity financing for construction of the Rosia Montana Project.

#### *Risk Associated with Mineral Tenure Rights*

Gabriel currently holds an exploitation concession license with respect to the Rosia Montana Project, whose initial term expires in 2019. The mining plan for the Rosia Montana Project envisions a 16-year operating life plus additional time for closure and remediation activities. The Romanian mining law provides license holders with a renewal right for successive five-year extensions to concession licenses subject to the approval of the National Agency for Mineral Resources ("NAMR") upon receipt of requisite application materials.

Gabriel has applied to the NAMR to upgrade the exploration concession license to an exploitation concession license on the Bucium project and holds an exploration concession license for the Baisoara project. The upgraded Bucium license will be necessary for the final permitting and construction of the Rosia Montana Project.

Gabriel has obtained mineral title opinions with respect to its licenses and, based upon such title opinions, Gabriel believes that it has good title to all mineral rights covering the mineral resources and reserves at the Rosia Montana Project. Such mineral title opinions should not, however, be construed as a guarantee of title to such mineral rights. Gabriel also believes that all licenses are in good standing and it is not in default of any provisions of such licenses. There can be no assurance that the licenses will not be terminated or cancelled due to an alleged breach of the terms and conditions of the license on the part of Gabriel or that the concession license with respect to the Rosia Montana Project will be extended subsequent to its initial term.

As described in the section "Risks Associated with Legal Challenges", Alburnus Maior and other NGOs have over the past several years commenced a number of legal actions seeking orders compelling the NAMR to annul the Rosia Montana License. There can be no assurance that there will not be further legal challenges to any of the exploitation or exploration concession licenses currently held by Gabriel or that such challenges will not be successful.

Any challenges to any of Gabriel's exploration or exploitation licenses, the conversion of any such license from an exploration license to an exploitation license, any delay in obtaining or in extending such licenses, the successful legal challenge to such licenses by NGOs, or the cancellation of such licenses, could negatively impact Gabriel's development and exploration plans, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project.

#### *Baia Mare Tailings Spill*

The incidents in 2000 at the Baia Mare and Baia Borsa tailings management facilities in Romania, in neither of which Gabriel had any interest or involvement, have dramatically increased public awareness of the environmental and safety hazards of the mining industry. In response to these incidents, both the United Nations and the EU convened missions or task forces to investigate these incidents and formulate conclusions and recommendations. The EU recommendations included developing a new EU directive relating specifically to the mining industry, the EU Mine Waste Directive, which came into force and effect in April 2006, as well as the preparation of an inventory of similar sites in Europe which pose the threat of similar incidents. The International Commission for the Protection of the Danube River (the "ICPDR") has assembled an inventory of high-risk tailings facilities in countries surrounding the Danube River, including Hungary, Romania, Slovenia and Ukraine. The Salistei tailings dam, which was operated by Minvest at Rosia Montana until operations ceased in May 2006, although outside the boundaries of the Rosia Montana Project, is included in the ICPDR's inventory.

An incident at any one of the facilities included in the ICPDR's inventory, or that occurs elsewhere in Europe, is beyond Gabriel's control and may adversely affect political attitudes in Romania regarding the mining industry. In particular, a shift in such attitudes away from support for the mining industry may adversely affect Gabriel's ability to, or may prevent Gabriel from, developing a new mine at Rosia Montana.

### *Risks Associated with the Closure of the State-Run Mining Operations*

In May 2006, Minvest permanently ceased all mining operations at Rosia Montana and then prepared and delivered a mine closure plan to the Romanian authorities for approval. Although Gabriel understands that such mine closure plan was approved by the relevant authorities, there can be no assurance that Minvest will obtain the requisite funding in a timely fashion to undertake the activities contemplated by such closure plan and that undertaking such activities will not interfere with the development of the Rosia Montana Project.

Likewise, until Minvest's mine closure plan has been fully implemented, there can be no assurance that such activities will not attract liability to Gabriel, as the titleholder of the Rosia Montana exploitation concession license, under the laws, rules and regulations applicable to mining activities in Romania. Likewise, there can be no assurance that the assumption by Minvest of all liabilities associated with its mining operations and the indemnification of Gabriel from such liabilities will be enforceable against Minvest.

### *Risks Associated with Legal Challenges*

Gabriel faces a number of legal challenges initiated by NGOs with respect to the development of the Rosia Montana Project. The publicly stated objective of these legal challenges is to suspend, annul, terminate, or prevent the issuance of, each of the licenses, permits, approvals and authorizations required by Gabriel to develop and operate the Rosia Montana Project. Certain recent legal challenges target the corporate activities of RMGC in Romania and seek declarations annulling certain activities, and in fact the dissolution of the company itself. There are significant risks that the success of these legal challenges could result in the suspension, annulment, or termination, or prevent the issuance, of such licenses, permits, approvals, authorizations, or could result in a court decision ordering the dissolution of RMGC, which could negatively impact Gabriel's development plans, result in additional expenses for the Company, or prevent the development of the Rosia Montana Project.

### *Risks Associated with Proposed Adverse Legislative Initiatives*

Since 2005, a number of private members' bills have been introduced in the Romanian Parliament with the intent of preventing the development of the Rosia Montana Project. These private members' bills have proposed banning the use of cyanide in mining operations, declaring certain archaeological sites as areas of national interest and declaring Rosia Montana as a protected area. The proposal to ban cyanide

in mining operations was introduced in 2005 and again in 2007. At present, this legislative initiative and the proposal to declare certain archaeological sites as areas of national interest are in the parliamentary committee stage. The legislative initiative declaring Rosia Montana a protected area was voted down in the Romanian Parliament in 2008. In the ordinary course of any parliamentary session many legislative bills are introduced for debate, some of which, when passed in their final form, could have an adverse impact on the Rosia Montana Project from an economic, permitting or operations perspective. At this time, the Company cannot predict what the potential outcomes may be given the inherent unpredictability of the parliamentary review process, or the likelihood of future legislative initiatives designed to specifically target and prevent the development of the Rosia Montana Project. There are significant risks that these legislative initiatives will be passed by the Romanian Parliament and become law. Such passage could negatively impact Gabriel's development plans, result in additional delays and expenses for the Company, or prevent the development of the Rosia Montana Project.

### *Uninsured Risks*

Gabriel maintains insurance to protect it against certain risks related to its current operations in amounts that it believes is reasonable, depending upon the circumstances surrounding each identified risk. Gabriel may elect, however, not to insure against certain risks due to high premiums or for various other reasons. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, rock slides, cave-ins, fire, flooding or earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, any future profitability could be reduced or eliminated and result in increasing costs and a decline in the value of Gabriel's securities.

### *Management*

Gabriel currently has a small executive management group, which is sufficient for Gabriel's present stage of development. Given that Gabriel's development to date has depended, and in the future will continue to depend, on the efforts of the executive management group, the loss of members of this group could have a material adverse effect on Gabriel, its business and its ability to develop the Rosia Montana Project.

On March 23, 2009, Alan R. Hill retired as President and CEO of Gabriel. The Board appointed Keith Hulley, who has served on the Board and as Chairman of the Technical Committee for the past three years, as interim CEO until a

permanent replacement is found. The Company formed a selection committee and an executive search firm has been engaged to assist the Company in finding a new CEO. In addition, Richard Young, Vice President and Chief Financial Officer, will resign as of March 31, 2010.

### *Enforcement of Civil Liabilities*

As substantially all of the assets of Gabriel and its subsidiaries are located outside of Canada, and certain of its directors and officers are resident outside of Canada, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of Gabriel or its subsidiaries or its directors and officers residing outside of Canada.

## New Accounting Pronouncements

### *Goodwill and Intangible Assets*

The Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", Section 3450, "Research and Development" and EIC-27, "Revenues and Expenditures during the Pre-operating Period". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The adoption of this standard had no impact on the Company's financial statements.

### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the CICA approved EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The adoption of this standard had no impact on the Company's financial statements.

### *Mining Exploration Costs*

On March 27, 2009, the CICA approved EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company applied this new abstract in 2009 and there was no impact on the Company's financial statements.

### *Financial Instruments – Disclosures*

During 2009, CICA Handbook Section 3862, "Financial Instruments – Disclosures", was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582, "Business Combinations", replaces section 1581, "Business Combinations", and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The Company opted to early-adopt these standards and applied Section 1602, "Non-Controlling Interests", in accounting for the purchase of minority interest shares (refer to Note 9). Consequently, the difference between the carrying amount of the minority interest shares and the fair value of the consideration paid was recognized directly in shareholders' equity. The early adoption of Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements", did not have an impact on the Company's consolidated financial statements.

### *IFRS Changeover Plan Disclosure*

The Canadian Accounting Standards Board (“AcSB”) has announced its decision to replace Canadian generally accepted accounting principles (“GAAP”) with International Financial Reporting Standards (“IFRS”) for all Canadian Publicly Accountable Enterprises.

The effective changeover date is January 1, 2011, at which time Canadian GAAP will cease to apply for Gabriel Resources Ltd. and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011, including comparative IFRS financial results and an opening balance sheet as at January 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended December 31, 2011 with restated comparative data for the year ended December 31, 2010.

Management has developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: IFRS diagnostic assessment, implementation and education, and completion of all integration system and process changes.

Management has completed phase one, IFRS diagnostic assessment, and is now advancing through phase two, implementation and education. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the Company’s reported results and financial position.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, “First-Time Adoption of International Financial Reporting Standards”, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the third quarter of 2009, management held an IFRS educational session for the Audit Committee and the Board of Directors which focused on the key issues and transitional choices under IFRS 1.

Set out below are the most significant areas management has identified to date in which changes in accounting policies are expected to impact the Company’s consolidated financial statements, based on the accounting policy choices approved by the Audit Committee and Board of Directors. In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

#### **Asset Impairment**

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (“IAS”) 36, “Impairment of Assets”, uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell, and value in use (which uses discounted future cash flows). This may potentially result in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

#### **Share-Based Payments**

IFRS and Canadian GAAP largely converge on the accounting treatment for share-based transactions, with only a few differences.

Canadian GAAP allows either the accelerated or straight-line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight-line amortization method. IFRS 2, however, allows only the accelerated method.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur.

Upon adoption of IFRS, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition.

### **Exploration and Evaluation Assets**

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon, are capitalized.

Upon adoption of IFRS, the Company must determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework, which requires exploration expenditures to be expensed, and capitalization of expenditures only after the completion of a feasibility study, or disregard the IASB Framework and keep the existing company policy, if relevant and reliable. Management decided to fully adopt IFRS 6, "Exploration and Evaluation of Mineral Properties", and apply the IASB Framework. As a result, management analyzed mineral properties and identified \$28 million of exploration costs capitalized before the feasibility studies for Rosia Montana and Bucium were completed, as well as all exploration costs related to Baisoara. As a result of the application of the IASB Framework at the transition date, Mineral Properties will decrease by \$28 million, along with an increase to accumulated deficit by the same amount, reflecting the derecognized exploration costs.

### **Property, Plant and Equipment**

Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost, while under Canadian GAAP, the Company must carry PP&E on a cost basis and the revaluation is prohibited.

Upon adoption of IFRS, the Company must determine whether to elect a cost model or revaluation model. Management decided to adopt the cost model for both initial recognition and as the subsequent accounting policy for all classes of assets. As a result, there will not be a significant impact on the Company's financial statements on the adoption of IFRS.

In accordance with IAS 16, "Property, Plant and Equipment", the Company must allocate an amount initially recognized in respect of an asset to its component parts and account for each component separately when the components have different useful lives, or the components provide benefits to the entity in a different pattern.

### **Foreign Currency**

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity's financial results and position should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Currently the functional currency of the consolidated entity is the Canadian dollar, which is also the presentation currency of the Company's financial statements. As the Project progresses and the underlying transactions, events and conditions relevant to the entities change, the Company will reconsider the primary and secondary indicators, as described in IAS 21, in determining the functional currency for each entity. Going forward under IFRS, management expects that the functional currency will change either during construction, after project financing is finalized, or when the Company enters into commercial production. At that time, management will assess the appropriate functional currency based on existing circumstances, which may have a significant impact on the Company's consolidated financial statements prepared under IFRS.

As the Company elects and approves the IFRS accounting policy for each of the areas above, we will determine and disclose the impact of the IFRS adoption on our financial statements at the transition date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

Based on management's assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts of adopting IFRS identified to date is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive financial statement notes. The Company is continuing to assess the level of presentation and disclosure required for its consolidated financial statements.

## 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") for the Company, as those terms are defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings".

Our CEO and CFO certify that, as at December 31, 2009, the Company's DC&P have been designed effectively 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 effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The control framework the Company's CEO and CFO used to design the Company's ICFR is based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. 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, 2009 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 the report date was:

	<b>Outstanding</b>
Preferred shares	nil
Common shares	339,271,194
Common stock options	24,162,744
Common stock warrants	1,125,000
Deferred share units – common shares	598,628
<b>Fully diluted share capital</b>	<b>365,157,566</b>

## Proven and Probable Mineral Reserves

The Company maintains an 80.46% economic interest in the Rosia Montana Project, which, at year end 2009, has aggregate proven and probable reserves as follows, calculated using a gold price of \$735 per ounce:

Reserve Category	Tonnes	Grade <i>(grams per tonne)</i>		In situ <i>(ounces)</i>	
		Gold	Silver	Gold	Silver
Proven	112,455,000	1.63	9.0	5,893,000	32,540,000
Probable	102,476,000	1.27	4.6	4,184,000	15,156,000
<b>Total</b>	<b>214,931,000</b>	<b>1.46</b>	<b>6.9</b>	<b>10,077,000</b>	<b>47,696,000</b>

John Marek, P.Eng., is the qualified person responsible for calculating the reserve estimate set forth in the table above.

## Forward-Looking Statements

Certain statements included herein, including capital cost 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 Project's 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 Management's Discussion and Analysis includes many such forward-looking statements and such forward-looking 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 including changes to mining and other relevant legislation in Romania; operating or technical difficulties in connection with exploration, development or mining; environmental 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.

## Non-GAAP Financial Measures

### *Total Cash Costs Performance Measures*

Total cash costs include all forecasted costs absorbed into inventory, including royalties and by-product credits, and exclude accretion expense and amortization. The presentation of these statistics in this manner allows us to forecast and manage those factors that impact planned production costs. Total cash costs per ounce/tonne are calculated by dividing the aggregate of these costs by gold ounces sold or ore tonnes processed.

In planning our mining operations, we disaggregate cost of sales between amortization and the other components of cost of sales. We use total cash costs per ounce/tonne statistics as a key performance measure internally to evaluate the planned performance of our project. We use these statistics to assess our planned performance, and also to assess the overall effectiveness and efficiency of our planned mining operation.

We believe that the presentation of these statistics in this manner in our MD&A, together with commentary explaining trends and changes in these forecasted statistics, enhances the ability of investors to assess our project. These statistics also enable investors to better understand changes in cash production cost estimates, which affect our profitability and ability to generate cash flow.

The principal limitation associated with total cash costs per ounce/tonne statistics is that they do not reflect the total costs to produce gold, which impacts the projected earnings of the Company. We believe that the benefits of providing disaggregated information outweigh the limitation in the method of presentation of total cash costs per ounce/tonne statistics.

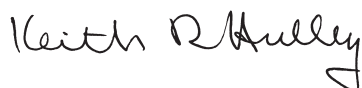
Total cash costs per ounce/tonne statistics are intended to provide additional information, do not have any standardized meaning prescribed by GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The measures are not necessarily indicative of forecasted operating profit or cash flow from operations as determined under GAAP. Other companies may calculate these measures differently.

# Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. 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 in Canada, and their report follows.



**Keith Hulley**  
Interim Chief Executive Officer



**Richard Young**  
Vice President and Chief Financial Officer

March 10, 2010

## Auditors' Report

### To the Shareholders of Gabriel Resources Ltd.

We have audited the consolidated balance sheets of Gabriel Resources Ltd. as at December 31, 2009 and December 31, 2008 and the consolidated statements of loss and deficit, comprehensive loss, shareholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and December 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants, Licensed Public Accountants**

Toronto, Canada  
March 10, 2010

# Consolidated Balance Sheets

As at December 31,

(In thousands of Canadian dollars)

	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 116,110	\$ 72,233
Short-term investments (note 4)	46,201	–
Accounts receivable	1,460	5,221
Prepaid expenses and supplies	788	769
	<b>164,559</b>	<b>78,223</b>
Restricted cash (note 4)	126	153
Capital assets (note 5)	52,464	44,675
Mineral properties (note 6)	441,545	407,084
	<b>\$ 658,694</b>	<b>\$ 530,135</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,402	\$ 18,843
Resettlement liabilities (note 7)	5,442	30,208
	<b>15,844</b>	<b>49,051</b>
<b>Other Liabilities (note 8)</b>	<b>3,908</b>	<b>3,065</b>
	<b>19,752</b>	<b>52,116</b>
<b>Shareholders' Equity</b>		
Capital stock (note 10)	733,481	560,052
Common share purchase warrants (note 11)	11,393	–
Contributed surplus (note 13)	18,050	15,051
Deficit	(123,982)	(97,084)
	<b>638,942</b>	<b>478,019</b>
	<b>\$ 658,694</b>	<b>\$ 530,135</b>

Nature of operations and going concern (note 1)

Minority interest (note 9(b))

Commitments and contingencies (note 18)

**Approved by the Board of Directors**



Michael Parrett  
Director



Alan R. Thomas  
Director

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

# Consolidated Statements of Shareholders' Equity

For the years ended December 31,  
(In thousands of Canadian dollars)

	2009	2008
<b>Common shares</b>		
At January 1	\$ 560,052	\$ 558,277
Shares issued from public and private offerings (note 10)	172,671	–
Less: Share issue costs (note 10)	(4,293)	–
Shares issued on the exercise of stock options (note 10)	3,049	1,209
Transfer from contributed surplus – exercise of stock options (note 13)	1,399	566
Shares issued on DSU settlement	123	–
Shares issued on purchase of minority interest shares (note 13)	480	–
At December 31	733,481	560,052
<b>Common share purchase warrants</b>		
At January 1	–	–
Warrants issued from a private placement (note 11)	11,393	–
At December 31	11,393	–
<b>Contributed surplus</b>		
At January 1	15,051	8,807
Stock-based compensation (note 13)	5,403	6,810
Exercise of stock options (note 13)	(1,399)	(566)
Purchase of minority interest shares (note 13)	(1,005)	–
At December 31	18,050	15,051
<b>Deficit</b>		
At January 1	(97,084)	(92,989)
Net loss	(26,578)	(4,095)
Purchase of minority interest shares (note 13)	(320)	–
At December 31	(123,982)	(97,084)
Accumulated other comprehensive loss	–	–
<b>Total shareholders' equity at December 31</b>	<b>\$ 638,942</b>	<b>\$ 478,019</b>

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

## Consolidated Statements of Loss and Deficit

For the years ended December 31,

(In thousands of Canadian dollars, except per share amounts)

	2009	2008
<b>Expenses</b>		
Corporate, general and administrative	\$ 12,880	\$ 7,989
Stock-based compensation (notes 8 and 12)	6,860	2,620
Project financing costs	571	2,186
Severance costs (note 8(c))	1,516	668
Amortization	237	304
	<b>22,064</b>	<b>13,767</b>
<b>Other expense (income)</b>		
Interest	(404)	(3,647)
Foreign exchange loss (gain)	4,726	(15,825)
<b>Loss (income) before income taxes</b>	<b>26,386</b>	<b>(5,705)</b>
Income tax expense (note 14)	192	9,800
<b>Loss for the year</b>	<b>\$ 26,578</b>	<b>\$ 4,095</b>
<b>Loss per share (basic and diluted)</b>	<b>\$ 0.09</b>	<b>\$ 0.02</b>
<b>Weighted average number of shares</b>	<b>285,487,322</b>	<b>255,192,829</b>

## Consolidated Statements of Comprehensive Loss

For the years ended December 31,

(In thousands of Canadian dollars)

	2009	2008
Loss for the year	\$ 26,578	\$ 4,095
Other comprehensive loss	—	—
<b>Comprehensive loss</b>	<b>\$ 26,578</b>	<b>\$ 4,095</b>

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

# Consolidated Statements of Cash Flows

For the years ended December 31,  
(In thousands of Canadian dollars)

	2009	2008
<b>Cash flows from (used in) operating activities</b>		
Loss for the year	\$ (26,578)	\$ (4,095)
Items not affecting cash		
Amortization	237	304
Stock-based compensation	6,860	2,620
Unrealized foreign exchange loss (gain) on cash and cash equivalents	796	(5,278)
	<b>(18,685)</b>	<b>(6,449)</b>
DSU cash settlement	(1,991)	(52)
Net changes in non-cash working capital (note 19)	(478)	1,525
	<b>(21,154)</b>	<b>(4,976)</b>
<b>Cash flows provided by (used in) investing activities</b>		
Decrease (increase) in short-term investments	(46,174)	9
Development and exploration expenditures	(43,560)	(48,534)
Purchase of capital assets	(22,174)	(27,240)
Purchase of minority interest shares	(845)	–
Net changes in non-cash working capital (note 19)	(2,486)	(460)
	<b>(115,239)</b>	<b>(76,225)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of capital stock and warrants, net of issue costs	179,687	–
Proceeds from the exercise of stock options	3,049	1,209
Net changes in non-cash working capital (note 19)	–	(112)
	<b>182,736</b>	<b>1,097</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>46,343</b>	<b>(80,104)</b>
<b>Effect of foreign exchange on cash, cash equivalents, and non-cash working capital</b>	<b>(2,466)</b>	<b>5,093</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>72,233</b>	<b>147,244</b>
<b>Cash and cash equivalents – end of year</b>	<b>\$ 116,110</b>	<b>\$ 72,233</b>
<b>Supplemental cash flow information (note 19)</b>		

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

# Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

*(Tabular amounts in thousands of Canadian dollars, unless otherwise stated)*

## 1. Nature of Operations and Going Concern

Gabriel Resources Ltd. (the “Company”) is a Canadian-based resource company engaged in the exploration and development of mineral properties in Romania and is presently developing its 80.46%-owned Rosia Montana gold project (the “Project”). Since acquiring the 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 Company’s mineral properties is dependent upon the existence and economic recovery of such 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, and changes in existing government regulations – for example, a ban on the use of cyanide in mining, re-designation of the Project area as an archaeological site of national importance, or 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. The suspension of the EIA process by the former Minister of Environment and Sustainable Development in September 2007 demonstrates the significant risks that this Project faces. These risks may adversely affect the investment, and may result in the impairment or loss of all or part of the Company’s investment.

These consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles (“Canadian GAAP”) applicable to a “going concern”, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at December 31, 2009, 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.

Management has developed a new financing plan that assumes the availability of senior debt financing in combination with equity and other potential financing sources in order to meet the Company’s financing needs. The new plan incorporates recent developments in both the debt and equity markets. The timeline from the restart of the permitting process until receipt of construction permits might be extended as the Company may pursue certain activities sequentially that had previously been planned to run in parallel or, alternatively, construction may not begin immediately after receipt of

construction permits if financing is not complete. During the year, the Company raised \$180 million net of acquisition costs through two private placements and a public equity offering and as at December 31, 2009 had \$149 million in working capital.

There can be no assurances that the Company’s financing plan and permitting will be successful and, as a result, there is significant doubt regarding the “going concern” assumption and, accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate. If the “going concern” assumption were not appropriate for these consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications, which could be material, would be necessary.

## 2. New Accounting Standards

### *Goodwill and Intangible Assets*

The Canadian Institute of Chartered Accountants (“CICA”) issued accounting standard Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”, Section 3450, “Research and Development” and EIC-27, “Revenues and Expenditures during the Pre-operating Period”. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The adoption of this standard had no impact on the Company’s financial statements.

### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the CICA approved EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. This guidance clarified that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard had no impact on the Company’s financial statements.

### *Mining Exploration Costs*

On March 27, 2009, the CICA approved EIC-174, “Mining Exploration Costs”, which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company applied this new abstract in 2009 and there was no impact on the Company’s financial statements.

### *Financial Instruments – Disclosures*

During 2009, CICA Handbook Section 3862, “Financial Instruments – Disclosures”, was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See note 16 for the relevant disclosures.

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests”. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582, “Business Combinations” replaces section 1581, “Business Combinations”, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601, “Consolidated Financial Statements”, and 1602, “Non-Controlling Interests”, together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company opted to early-adopt these standards and applied Section 1602, “Non-Controlling Interests”, in accounting for the purchase of minority interest shares (refer to Note 9). Consequently, the difference between the carrying amount of the minority interest shares and the fair value of the consideration paid was recognized directly in shareholders’ equity. The early adoption of Section 1582, “Business Combinations” and Section 1601, “Consolidated Financial Statements”, did not have an impact on the Company’s consolidated financial statements.

### *Future Accounting Changes*

#### *Transition to International Financial Reporting Standards (“IFRS”)*

The Canadian Accounting Standards Board (“AcSB”) requires all Canadian Publicly Accountable Enterprises to adopt IFRS for years beginning on or after January 1, 2011. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011, including comparative IFRS financial results and an opening balance sheet as at January 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended December 31, 2011 with restated comparative data for the year ended December 31, 2010.

### *3. Significant Accounting Policies*

#### *Sources of GAAP*

These consolidated financial statements have been prepared in accordance with Canadian GAAP, and reflect the following significant accounting policies:

#### *Basis of Consolidation*

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

Gabriel Resources (Barbados) Ltd.	100%-owned
Gabriel Resources (Netherlands) B.V.	100%-owned
Gabriel Resources (Jersey) Ltd.	100%-owned
Rosia Montana Gold Corporation S.A. (“RMGC”)	80.5%-owned
Rom AUR SRL	100%-owned
Gabriel Finance SA	99.7%-owned

#### *Estimates, Risks and Uncertainties*

The preparation of financial statements in conformity with generally accepted accounting principles 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 year. Significant estimates and assumptions include those related to the recoverability of mineral properties, benefits of future income tax assets, estimated useful lives of capital assets, and share purchase warrants and stock-based compensation assumptions. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

#### *Capital Assets*

Capital assets are recorded at cost less accumulated amortization. Amortization of capital assets used for exploration and development is capitalized to mineral properties.

Amortization is recorded using the straight-line method based on a useful life of five years for vehicles and varying rates of between two and five years for office equipment. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease.

### *Mineral Properties*

Acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon, are capitalized. Upon reaching commercial production, these capitalized costs will be transferred from exploration properties to producing properties on the Balance Sheet and will be amortized using the unit-of-production method over the estimated ore reserves.

### *Impairment of Long-Lived Assets*

Capital assets and mineral properties to be held and used by the Company are reviewed regularly for possible impairment or whenever triggering events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Estimated future cash flows are calculated using estimated future prices, mineral resources, operating and capital costs on an undiscounted basis. When the carrying value of the mine or development project exceeds the estimated undiscounted future cash flows, the asset is impaired. The impairment loss is recorded to the extent the carrying value exceeds the discounted value of the estimated future cash flow. Management has performed an impairment analysis and concluded that there has been no impairment of the Company's long-lived assets as at December 31, 2009.

### *Foreign Currency Translation*

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 on the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of losses in the current year.

Integrated foreign subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Expenses and other income are translated at the rate in effect on the date of the transaction. Exchange gains or losses related to expenditures on project activities arising from the translation are included in Mineral Properties which are capitalized.

### *Loss per Share ("LPS")*

LPS is calculated based on the weighted average number of common shares issued and outstanding during the year. 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. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted LPS are the same.

### *Income Taxes*

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 year. 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. A valuation allowance is recognized to the extent the recoverability of future income tax assets are not considered more likely than not to be realized.

### *Cash and Cash Equivalents*

Cash and cash equivalents are comprised of cash at banks, on hand and other highly liquid short-term investments, having an original maturity date of three months or less.

### *Short-Term Investments*

Short-term investments represent investments in guaranteed investment certificates with maturity dates of more than a period of 90 days. Short-term investments are carried at cost, including accrued interest, which approximates fair value.

### *Stock-Based Compensation*

Stock-based compensation relating to stock options is estimated based on fair value at the grant and/or measurement date using the Black-Scholes model, and charged to the Statement of Loss or capitalized to Mineral Properties on the Balance Sheet over the vesting period.

Stock-based compensation relating to deferred share units is calculated based on the quoted market value of the common share, and charged to the Statement of Loss or capitalized to Mineral Properties on the Balance Sheet with a corresponding credit to Contributed Surplus. The compensation cost and liability is adjusted each reporting period for changes in the underlying share price.

### *Asset Retirement Obligation*

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement of fair value. At December 31, 2009, the Company has not incurred or committed to any asset retirement obligations related to the development of its mineral properties in Romania, as it has not received its construction permits or commenced mine construction activities.

## 4. Short-Term Investments and Restricted Cash

<b>Short-Term Investments</b>	<b>2009</b>	<b>2008</b>
Money market investments with maturities from the date of acquisition of 4 – 12 months	\$ 46,201	\$ –

Short-term investments held at year end yielded an average interest rate of 0.67% in 2009 (2008 – nil).

<b>Restricted Cash</b>	<b>2009</b>	<b>2008</b>
Restricted cash (1)	\$ 126	\$ 153

(1) Restricted cash represents environmental guarantees for future cleanup costs.

## 5. Capital Assets

	2009	2008
<b>Cost</b>		
Office equipment	\$ 4,207	\$ 4,069
Building	1,082	1,082
Vehicles	1,282	1,282
Leasehold improvements	215	215
Construction in progress (1)	50,249	41,956
	<b>57,035</b>	<b>48,604</b>
<b>Less: Accumulated amortization</b>		
Office equipment	3,122	2,566
Building	63	53
Vehicles	1,207	1,156
Leasehold improvements	179	154
	<b>4,571</b>	<b>3,929</b>
<b>Net book value</b>		
Office equipment	1,085	1,503
Building	1,019	1,029
Vehicles	75	126
Leasehold improvements	36	61
Construction in progress (1)	50,249	41,956
	<b>\$ 52,464</b>	<b>\$ 44,675</b>

(1) Amounts included in construction in progress are not subject to amortization. Construction in progress includes the following amounts:

	2009	2008
Resettlement site development costs	\$ 1,951	\$ 9,831
Long-lead-time equipment	48,298	32,125
	<b>\$ 50,249</b>	<b>\$ 41,956</b>

## 6. Mineral Properties

	Rosia Montana	Bucium	Baisoara	Total
Balance – December 31, 2007	\$ 328,804	\$ 10,375	\$ 182	\$ 339,361
Development costs	66,760	–	–	66,760
Exploration costs	675	83	205	963
Balance – December 31, 2008	396,239	10,458	387	407,084
Development costs (1)	<b>33,314</b>	–	–	<b>33,314</b>
Exploration costs (1)	<b>1,016</b>	<b>1</b>	<b>130</b>	<b>1,147</b>
<b>Balance – December 31, 2009</b>	<b>\$ 430,569</b>	<b>\$ 10,459</b>	<b>\$ 517</b>	<b>\$ 441,545</b>

(1) Mineral property additions of \$34.5 million (2008 – \$67.7 million) are \$9.1 million lower than the amount reported in the Consolidated Statements of Cash Flows of \$43.6 million. The difference is due to a net adjustment of resettlement liabilities and construction in progress (on completion of the Recea resettlement site), partially offset by non-cash charges for stock-based compensation and amortization (see details in note 19).

The Company's principal asset is its 80.46% (2008 – 80%) direct ownership interest in a Romanian company, Rosia Montana Gold Corporation ("RMGC"), which holds two mineral licenses in Romania: Rosia Montana and Bucium. Minvest S.A. ("Minvest"), a Romanian state-owned mining company, together with one other private Romanian company, holds a 19.54% (2008 – 20%) interest in RMGC, and Gabriel holds the pre-emptive right to acquire the 19.54% (2008 – 20%) minority 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 minority shareholders receiving dividends. RMGC will be required to pay a 4% net smelter royalty on all production from the Rosia Montana Project. In December 2009, in order to replenish the net asset position of RMGC in accordance with Romanian Fiscal Code, the shareholders of RMGC contributed \$216 million to the share capital of RMGC. The share capital increase was accomplished by converting \$174 million of debt in RMGC to equity. The remaining \$42 million was funded through a contribution provided to minority shareholders in the form of a non-interest bearing loan to fund their respective pro-rata contributions.

An exploitation license is held by RMGC as the titleholder in respect of the Rosia Montana property. RMGC has the exclusive right to conduct mining operations at the Rosia Montana property for an initial term of 20 years commencing in 1998, and thereafter with successive five-year renewal periods.

RMGC holds an exploration license over the Bucium property. The license was extended in 2004 and expired on May 19, 2007. The Company has spent US\$3.4 million over the term of the license extension period. The expired exploration license can be converted into an exploitation license upon submission and approval of a feasibility study. During

2007, the Company filed the necessary documentation to convert the exploration license into an exploitation license and the Company is awaiting response from the authorities on this item. No additional work on Bucium's project economics is planned until the license is converted from an exploration license to an exploitation license, and until the Rosia Montana EIA is approved.

The Company, through its wholly-owned subsidiary Rom Aur SRL ("Rom Aur"), holds an exploration license with respect to the Baisoara property in Western Romania. The license is for an initial term of five years and expires in July 2011. Upon granting of the license, the Company committed to spend US\$3.2 million over the term of the license. Due to the delay in the Rosia Montana permitting process, the Company has reduced the exploration expenditure for Baisoara to a level required to maintain the license and permit in good standing.

## 7. Resettlement Liabilities

During the fourth quarter of 2006, the Company recommended purchasing homes in the Project area. Residents had 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 the Company at one of the two new 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 cost of newly built houses is capitalized as construction in progress. After the transfer of legal title of the property is completed, the Company reduces the amounts capitalized as construction in progress and also 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, 2009, the Company had accrued resettlement liabilities totalling \$5.4 million (December 31, 2008 – \$30.2 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 has been completed and 124 homes have been handed over to their new owners. The last home will be handed over, and legal transfer of the seven remaining homes will be finalized, in the first quarter of 2010. The Company is currently working to obtain permits for the construction of Piatra Alba, the new resettlement village to be built in Rosia Montana. All 24 property owners who chose the Piatra Alba resettlement site have signed a three-year extension contract. As a result of the delay in delivery of homes, the Company paid or accrued a penalty of 9% (for Recea) and up to 20% (for Piatra Alba) of the agreed-upon unpaid property value per year of delay, as required by the agreement including all amendments.

As at December 31, 2009, the Company has accrued \$0.4 million (December 31, 2008 – \$1.2 million), representing its total estimated delay penalty. During the year ended December 31, 2009, the Company paid \$0.8 million of delay penalties (2008 – \$0.7 million).

## 8. Other Liabilities

Deferred Share Units (“DSUs”) <i>(a)</i>	DSUs (thousands)	Price per common share (dollars)	Value
Outstanding – December 31, 2007	603	\$ 1.97	\$ 1,188
Issued	580	1.26	728
Settled	(28)	1.82	(52)
Change in fair value	–	–	(109)
Outstanding – December 31, 2008	1,155	1.52	1,755
Issued	<b>68</b>	<b>2.43</b>	<b>165</b>
Settled	<b>(623)</b>	<b>3.39</b>	<b>(2,114)</b>
Change in fair value	–	–	<b>2,811</b>
<b>Balance – December 31, 2009</b>	<b>600</b>	<b>\$ 4.36</b>	<b>\$ 2,617</b>
<b>Fidelity bonus and other benefits <i>(b)</i></b>			
Balance accrued – December 31, 2007			\$ 849
Additions			461
Balance accrued – December 31, 2008			1,310
Additions			<b>228</b>
Foreign exchange movement			<b>(247)</b>
<b>Balance accrued – December 31, 2009</b>			<b>\$ 1,291</b>
<b>Total Other Liabilities</b>			<b>\$ 3,908</b>

(a) DSUs

The Company has a 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 and cash. It is at the holder's discretion as to whether he/she elects to settle the DSU in cash or shares of Gabriel. If the holder elects to settle the DSU in shares of Gabriel, the Company, at its sole discretion, can elect to pay the amount in common shares purchased from the open market, or issued from treasury.

The change in the fair market value of the DSU liability has been recorded in stock-based compensation expense, except for costs relating to personnel working on projects in Romania, which are capitalized.

<b>Deferred Share Units ("DSUs")</b>	<b>2009</b>	<b>2008</b>
Expensed	<b>\$ 2,668</b>	\$ 564
Capitalized	<b>\$ 308</b>	\$ 55

Initially valued at the market price of the stock at date of issue, DSUs are revalued each period end based on the closing share price at the period end, with the difference between the fair value of the DSUs at period end compared to the fair value at the end of the previous period. If the share price declines, the lower value of the DSUs is credited against costs during the period. If the share price is higher, the difference is charged to the Statement of Loss and capitalized to Mineral Properties, increasing costs for the period.

(b) Fidelity Bonus

Under the Collective Bargaining Agreement between RMGC and its employees, under certain conditions, employees of RMGC are entitled to a bonus equal to one month of average gross salary when celebrating 3, 5, 10, 15, 20, and 25 years of uninterrupted service as well as other benefits related to death benefits and termination of employment. As of December 31, 2009, \$1.3 million (December 31, 2008 – \$1.3 million) has been accrued for these benefits.

(c) Severance and Termination Costs

On December 4, 2007, in light of the suspension of the EIA review process, the Company announced and enacted plans to scale back activities. The Company paid \$1.3 million in termination benefits in 2008. The remaining balance of \$0.8 million was paid in full during the second quarter of 2009.

During 2009, three senior employees left the Company. As per their employment contracts, \$1.5 million in settlement payments was paid, which fully settled the liability as per their settlement agreements.

## 9. Related Party Transactions

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

- (a) For the year ended December 31, 2009, the Company paid \$152 thousand (2008 – \$4 thousand) to two directors of the Company for consultation services provided to the Company.
- (b) During the year, the Company received a formal offer to purchase the shares held in RMGC by two of its minority shareholders (the “Minority Shareholders”), each of whom owned 23,967 common shares in RMGC, representing 0.23% each of its share capital. The Company responded to the offer of the Minority Shareholders and has purchased 47,934 common shares of RMGC held by the Minority Shareholders for 222,708 shares of Gabriel and US\$0.8 million in cash. As a result of these transactions, the Company’s ownership interest in RMGC increased from 80% to 80.46%.
- (c) In December 2004, the Company loaned a total of US\$971 thousand to the four minority shareholders of RMGC who held an aggregate of 20% of the shares of RMGC, to facilitate a statutory requirement to increase RMGC’s total share capital. During 2009, the Company purchased shares held in RMGC by two of its minority shareholders. Upon completion of this transaction, the outstanding indebtedness of the two minority shareholders of \$23 thousand was deemed to be paid in full.
- (d) In 2009, the Company loaned a further US\$40 million to the remaining two minority shareholders of RMGC to facilitate another statutory share capital increase in RMGC.

The loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans and related minority interest contribution have been offset on the balance sheet until such time as the loans are repaid. Once the loans are repaid the minority interest component will be reflected on the balance sheet.

## 10. Capital Stock

Authorized

Unlimited number of common shares without par value

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

<b>Common shares issued and outstanding</b>	<b>Number of shares (thousands)</b>	<b>Amount</b>
Balance – December 31, 2007	254,898	\$ 558,277
Shares issued on the exercise of stock options ( <i>note 12</i> )	551	1,209
Transfer from contributed surplus – exercise of stock options ( <i>note 13</i> )	–	566
Balance – December 31, 2008	255,449	\$ 560,052
Shares issued from public and private offerings	<b>81,806</b>	<b>172,671</b>
Less: Share issue costs	–	<b>(4,293)</b>
Shares issued on the exercise of stock options ( <i>note 12</i> )	<b>1,654</b>	<b>3,049</b>
Transfer from contributed surplus – exercise of stock options ( <i>note 13</i> )	–	<b>1,399</b>
Shares issued on DSU settlement	<b>68</b>	<b>123</b>
Shares issued on purchase of minority interest shares	<b>223</b>	<b>480</b>
<b>Balance – December 31, 2009</b>	<b>339,200</b>	<b>\$ 733,481</b>

On June 11, 2009, the Company closed a private placement and a public offering financing through the issuance of 51.8 million common shares, including common shares issued under an over-allotment option, for aggregate gross proceeds of approximately \$116.6 million. The share issuance costs related to the public offering and private placement were \$4 million.

As a result of the public offering, the Company sold 29.8 million common shares, which includes the exercise in full of the over-allotment option, at \$2.25 per common share to a syndicate of underwriters led by Cormark Securities Inc. and RBC Capital Markets as joint bookrunners, and including Canaccord Capital Corporation, for aggregate gross proceeds of \$67.1 million.

Pursuant to the private placement, each of Electrum Strategic Holdings LLC and Paulson & Co. Inc., two of Gabriel's significant shareholders, purchased 10.6 million and 11.4 million common shares, respectively, at a price of \$2.25 per common share, for aggregate gross proceeds of \$49.5 million.

On December 18, 2009, the Company closed a private placement with BSG Capital Markets PCC Limited, which is part of the Beny Steinmetz Group ("BSG"). Pursuant to the private placement, BSG subscribed for 30 million Units at a subscription price of \$2.25 per Unit for gross proceeds to the Company of \$67.5 million. The share issuance costs related to the private placement were \$0.3 million. Each Unit consists of one common share of the Company and one common share purchase warrant entitling BSG to purchase one additional common share of the Company. The net proceeds of the private placement were allocated between share capital and share purchase warrants on the basis of their relative fair values. The amount allocated to share capital was \$55.8 million, while \$11.4 million was allocated to share purchase warrants.

## 11. Share Purchase Warrants

As at December 31, 2009, the following share purchase warrants were issued and outstanding:

	Number of warrants (thousands)	Exercise price (dollars)	Assigned value	Expiry date
Balance – December 31, 2008 (1)	1,125	\$ 4.88	US\$ 1,500	November 28, 2010
Warrants issued (2)	30,000	\$ 2.50 – 3.00	\$ 11,393	July 18 – December 18, 2011
Balance – December 31, 2009	31,125			

(1) The assigned value of the warrants vested, US\$1.5 million, represents their cash settlement value. The Company has accrued this amount in accounts payable and accrued liabilities. It is at the holders' discretion as to whether they elect to settle the warrants in cash or shares of the Company.

(2) The assigned value of warrants represents their relative fair value allocated between share capital and share purchase warrants based on the net proceeds from the private placement with BSG Capital Markets.

During the fourth quarter of 2006, the Company entered into mandate letters with two international financial institutions to arrange project debt financing for the development of the Rosia Montana Project. The two institutions were to provide a committed underwriting in an amount up to US\$350 million. As a result of the suspension of the EIA review process, the mandate letters terminated during 2008 and 1.125 million warrants vested, while 1.5 million warrants were cancelled. Each warrant has a four-year term and an exercise price of \$4.88. The Company continues to work with the international financial institutions to secure a new agreement whereby the institutions would arrange but not underwrite a bank facility.

During the year, the Company closed a private placement with BSG Capital Markets PCC Limited. Pursuant to the private placement, BSG subscribed for 30 million Units at a subscription price of \$2.25 per Unit. Each Unit consists of one common share of Gabriel and one common share purchase warrant entitling BSG to purchase one additional common share of Gabriel at \$2.50 per share for 18 months, rising to \$3.00 per share for the final six months of the two-year warrant. The net proceeds of the private placement were allocated between share capital and share purchase warrants on the basis of their relative fair values. The amount allocated to share capital was \$55.8 million, while \$11.4 million was allocated to share purchase warrants.

## 12. Stock Options

The Incentive Stock Option Plan (the “Plan”) authorizes the Directors to grant options to purchase 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 prior to the option allotment. The majority of options granted vest over three years and are exercisable over five years from the date of issuance.

The Plan was amended on May 8, 2007 to allow for the maximum number of common shares issuable under the Plan to equal 10% of the issued and outstanding common shares of the Company at any point in time, and that options once exercised would be re-endorsed into the pool of ungranted options.

As at December 31, 2009, 6.6 million options are available for issuance under the Plan (December 31, 2008 – 3.0 million).

As at December 31, 2009, common share stock options held by directors, officers, employees and consultants are as follows:

Range of exercise prices (dollars)	Outstanding			Exercisable	
	Number of options (thousands)	Weighted average exercise price (dollars)	Weighted average remaining contractual life (years)	Number of options (thousands)	Weighted average exercise price (dollars)
\$1.18 – 2.00	14,872	\$ 1.70	2.8	10,304	\$ 1.62
2.01 – 3.00	5,557	2.52	2.8	3,526	2.52
3.01 – 5.00	3,805	4.24	3.4	1,963	4.48
	24,234	\$ 2.29	2.9	15,793	\$ 2.17

During the years ended December 31, 2009 and 2008, director, officer, employee and consultant stock options were granted, exercised, forfeited and cancelled as follows:

	Number of options (thousands)	Weighted average exercise price (dollars)
Balance – December 31, 2007	12,926	\$ 2.44
Options granted	11,240	1.95
Options expired	(279)	4.51
Options forfeited/cancelled	(822)	3.06
Options exercised	(551)	2.19
Balance – December 31, 2008	22,514	2.16
Options granted	3,870	3.05
Options forfeited/cancelled	(496)	3.54
Options exercised	(1,654)	1.84
<b>Balance – December 31, 2009</b>	<b>24,234</b>	<b>\$ 2.29</b>

The estimated fair value of stock options is amortized 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 achieving milestones (the “measurement date”), the entire fair value of the vesting options is recognized immediately on the measurement date.

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

During 2008, the Company granted three million options with a fair value of \$2.6 million (\$0.87 per share option) that vested and were charged to Mineral Properties during the fourth quarter of 2008.

During the fourth quarter of 2008, the Company granted five million options, one-third of which vested upon issuance, with the remainder vesting upon the achievement of certain milestones or under certain conditions of termination. The estimated fair value of the unvested options will be recognized and capitalized at the measurement date as the milestones are achieved and the value can be reasonably measured. For the period ended December 31, 2009, the amount capitalized was \$1.0 million (\$0.60 per share option).

During the year ended December 31, 2009, the Company granted 3.9 million options. Of the 3.9 million options issued, 2.1 million vest over a three-year period and the remainder vest based on the achievement of certain milestones. The fair value of options that vest upon the achievement of milestones will be recognized and capitalized as milestones are achieved and the value can be reasonably measured. As of December 31, 2009, the amount recognized was \$0.4 million.

The current period’s valuation was calculated with the following assumptions:

	<b>2009</b>	2008
Weighted average risk-free interest rate	<b>1.60%</b>	2.97%
Volatility of the expected market price of shares	<b>102%</b>	70%
Weighted average expected life of options	<b>2.7 years</b>	2.7 years
Weighted average cost per option	<b>\$ 2.02</b>	\$ 1.02

As of December 31, 2009, the remaining fair value of outstanding measurable unvested options to be expensed is \$2.9 million, and to be capitalized is \$2.8 million. For the years ended December 31, 2009 and 2008, the fair value of stock options expensed and capitalized is as follows:

	<b>2009</b>	2008
Expensed	<b>\$ 4,192</b>	\$ 2,056
Capitalized	<b>\$ 1,211</b>	\$ 4,754

### 13. Contributed Surplus

The following table identifies the changes in contributed surplus for the periods indicated:

	<b>Total</b>
Balance – December 31, 2007	\$ 8,807
Stock-based compensation	6,810
Exercise of stock options	(566)
Balance – December 31, 2008	15,051
Stock-based compensation	<b>5,403</b>
Exercise of stock options	<b>(1,399)</b>
Purchase of minority interest shares	<b>(1,005)</b>
<b>Balance – December 31, 2009</b>	<b>\$ 18,050</b>

### 14. Income Taxes

During the first quarter of 2008, the Company received a tax assessment for \$4.8 million related to a Romanian tax audit completed during the first quarter of 2008. The Company, having accrued in 2006 its then-estimated tax liability, accrued an additional \$3.7 million in respect of the assessment, which arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt.

In April 2008, the Company was advised by the Romanian tax authorities that they were re-opening and auditing fiscal years 2003 and 2004 which had been previously audited.

In June 2008, the Company received a tax assessment for \$9.8 million related to the tax audit for the years 2003 and 2004, initiated and completed during the second quarter of 2008. This assessment also arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on intercompany debt.

All tax assessments have been paid and provided for in the 2007 and 2008 financial statements. Based on the advice of its professional tax advisors, the Company believes that the tax authorities have misapplied the legislation and the Company is vigorously contesting the State's position through the courts.

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rate to the amounts recognized in the Consolidated Statements of Loss.

	<b>2009</b>	2008
Income tax rate	<b>33%</b>	34%
Income tax at statutory rates	<b>\$ (8,708)</b>	\$ 1,911
Adjustment for foreign subsidiaries	<b>192</b>	9,800
Stock-based compensation	<b>2,263</b>	878
Valuation allowance	<b>6,445</b>	(2,789)
<b>Provision for income taxes</b>	<b>\$ 192</b>	\$ 9,800

The following table reflects future income tax assets as at December 31, 2009 and 2008:

	2009	2008
Loss carry forwards	\$ 15,710	\$ 14,902
Share issue costs	1,862	2,018
Capital assets	335	319
Cumulative eligible capital expenditures	3,167	3,550
Valuation allowance	(21,074)	(20,789)
<b>Future income tax assets recognized</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has available tax losses for Canadian income tax purposes which may be carried forward to reduce taxable income derived in future years. A summary of these losses is provided below:

<b>Non-capital losses expiring in:</b>	2009	2008
2009	\$ -	\$ 6,324
2010	11,421	11,421
2014	6,309	6,309
2015	6,397	6,397
2026	7,364	7,364
2027	6,717	6,717
2028	6,855	6,855
2029	17,775	-
<b>Total non-capital loss carry forwards</b>	<b>\$ 62,838</b>	<b>\$ 51,387</b>

## 15. Segmented Information

The Company has one operating segment: the acquisition, exploration and development of precious metal projects located in Romania.

Geographic segmentation of capital assets and mineral properties is as follows:

	2009	2008
Romania	\$ 493,697	\$ 451,280
Canada	312	479
<b>Total</b>	<b>\$ 494,009</b>	<b>\$ 451,759</b>

## 16. Financial Instruments

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

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

### *Credit Risk*

The Company's credit risk is primarily attributable to cash, cash equivalents and short-term investments that are held in investment accounts with Canadian banks and invested in sovereign debt. The Company has adopted a strategy to minimize its credit risk by substantially investing in sovereign debt issued by Canadian agencies and provinces and the federal governments of Canada, the United States, France and the Netherlands, with the balance of cash being invested in short-term deposits issued by Canadian banks.

The Company strives to maintain at least 85 to 90% of its cash, cash equivalents and short-term investments in sovereign debt.

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

The Company's credit risk is also attributable to value-added taxes receivable. Value-added taxes receivable are collectable from the Romanian government.

### *Liquidity Risk*

The Company has sufficient funds as at December 31, 2009 to settle current and long-term liabilities.

### *Market Risk*

#### (a) Interest rate risk

The Company has significant cash balances and no debt. As discussed above in the section "Credit Risk", the Company's policy is to primarily invest excess cash in sovereign guaranteed investments.

With the Company maintaining a short-term investment horizon, typically less than 12 months, for its cash, cash equivalents and short-term investment balances, it minimizes the risk of interest rate volatility as investments mature and are rolled over.

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

The Company's primary objective with respect to cash, cash equivalents and short-term investments is to mitigate credit risk. The Company has elected to forego yield in favour of capital preservation.

#### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar and its operations expose it to significant fluctuations in foreign exchange rates. The Company has monetary assets and liabilities denominated in Romanian Ron, United States dollars and European Union Euros, and is therefore subject to exchange variations against the functional and reporting currency, the Canadian dollar.

The Company maintains cash, cash equivalents and short-term investments in the currency of planned expenditures and is therefore susceptible to market volatility as foreign cash balances are revalued to the functional currency of the Company. Therefore, the Company may report significant foreign exchange gains or losses if significant market volatility continues.

### *Financial Instruments*

As at December 31, 2009 and 2008, the Company's financial instruments consisted of cash and cash equivalents, short-term investments, other current assets, accounts payable and accrued liabilities, and other long-term liabilities. With respect to all of these financial instruments, the Company estimates that their fair values approximate their carrying values as at December 31, 2009 and 2008, respectively.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2009<sup>(1)</sup>:

<b>Financial assets at fair value as at December 31, 2009</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash	\$ –	\$ 13,674	\$ –	<b>\$ 13,674</b>
Cash equivalents	–	102,436	–	<b>102,436</b>
Short-term investments ( <i>note 4</i> )	–	46,201	–	<b>46,201</b>
	<b>\$ –</b>	<b>\$ 162,311</b>	<b>\$ –</b>	<b>\$ 162,311</b>

(1) Comparative information has not been presented in the table because this comparative information is not required in the year of adoption of the amended CICA Handbook Section 3862, "Financial Instruments – Disclosures".

### *Sensitivity Analysis*

The Company has designated its cash, cash equivalents and short-term investments as held-for-trading, which are measured at fair value. As of December 31, 2009, the carrying amount of the financial instruments equals their fair market values. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three-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 \$0.3 million.
- For short-term investments a plus or minus 1% change in earned interest rates would affect net income by \$0.1 million.
- The Company holds significant balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of December 31, 2009, a plus or minus 1% change in foreign exchange rates would affect net income by \$1.5 million.

### **17. Capital Management**

The Company's objective when managing capital is to safeguard its accumulated capital (cash on hand) in order to fund development of its Rosia Montana Project. The Company manages its capital structure and makes adjustments to it based on the level of funds on hand and anticipated future expenditures.

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 Rosia Montana Project, there are no assurances that these initiatives will be successful. To safeguard capital and mitigate currency risk, the Company invests its surplus capital in highly liquid, highly rated financial instruments denominated in the currency of the planned expenditure.

## 18. Commitments and Contingencies

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

	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014 and thereafter</b>
Baisoara exploration license (note 6)	\$ 2,841	\$ 179	\$ 2,662	\$ –	\$ –	\$ –
Resettlement (note 7)	4,576	–	4,576	–	–	–
Goods and services (a)	14,652	12,413	688	1,217	8	326
Long-lead-time equipment (b)	5,147	5,049	98	–	–	–
Rosia Montana exploitation license (c)	2,143	214	214	214	214	1,287
Surface concession rights (d)	861	21	21	21	21	777
Lease agreements (e)	815	134	513	168	–	–
<b>Total commitments</b>	<b>\$ 31,035</b>	<b>\$ 18,010</b>	<b>\$ 8,772</b>	<b>\$ 1,620</b>	<b>\$ 243</b>	<b>\$ 2,390</b>

- (a) The Company and its subsidiaries have a number of agreements with arm's-length third parties who provide a wide range of goods and services which totalled \$14.7 million as at December 31, 2009 (December 31, 2008 – \$6.6 million). 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.
- (b) During 2007, the Company entered into purchase agreements for long-lead-time equipment, the cost of which was to be paid over several years beginning in 2007. The following is a summary of the long-lead-time equipment orders and the payment status:

	<b>2009</b>	<b>2008</b>
<b>Total purchase agreements</b>		
Grinding area systems	\$ 41,731	\$ 41,237
Crusher facilities	3,961	3,923
Foreign exchange movement	3,023	9,681
	<b>48,715</b>	<b>54,841</b>
<b>Amount paid to date</b>		
Grinding area systems	(37,011)	(20,436)
Crusher facilities	(3,881)	(1,896)
Foreign exchange movement	(2,676)	(4,769)
<b>Outstanding payment obligation</b>	<b>\$ 5,147</b>	<b>\$ 27,740</b>

- (c) Under the terms of the Company's exploitation mineral license for the Rosia Montana 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 10 years remaining.
- (d) RMGC has approximately 42 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 the proposed Cincic pit for an annual payment of \$21 thousand.
- (e) The Company has entered into agreements to lease premises for various periods until May 31, 2011. The annual rent of premises consists of minimum rent plus realty taxes, maintenance and utilities.

The Company has an agreement with a consulting firm to provide financial advisory services in relation to defining and implementing the financing plan for development of the Rosia Montana Project. A success fee of up to US\$4 million will be payable on execution of definitive credit agreements and/or financing documents for the senior, mezzanine and cost overrun debt facilities for the Project. No amount has been accrued for these services.

In March 2009 the Company entered into a professional service agreement with an international communications firm providing services in media planning and related activities. The term of the agreement is three years, from the commencement date of March 1, 2009 until February 29, 2012. The agreed-upon fee is comprised of an annual fee of €450,000 and a success fee of €800,000 payable at the end of the three-year term, dependent upon the fulfillment of certain criteria. The Company paid or accrued €375,000 for the annual fee as at December 31, 2009.

## 19. Subsequent Events

Subsequent to year end, a member of the Romanian Parliament filed two claims with respect to the share capital increase completed in December 2009. The first claim asserted that the transaction was not registered within the legal deadline; this claim was dismissed by the Alba County Court. The second claim also challenges the legality of the share capital increase process and further requests the dissolution of RMGC. This case is also before the Alba County courts and the hearing on its merits was postponed after the first hearing due to the absence of the plaintiff. The Company and its legal advisors are confident that it has complied with all of its obligations to replenish the net asset value of RMGC as required by Romanian Company Law. The Company believes it has strong arguments to defend the case on similar grounds as the first case.

**20. Supplemental Cash Flow Information**

(a) Net changes in non-cash working capital	2009	2008
Operating activities:		
Accounts receivable, prepaid expenses and supplies	\$ (101)	\$ 27
Accounts payable and accrued liabilities	6	(516)
Accrued fair value of warrants vested for project financing	–	1,829
Unrealized foreign exchange loss (gain) on working capital	(383)	185
	<b>\$ (478)</b>	<b>\$ 1,525</b>
Investing activities:		
Accounts receivable, prepaid expenses and supplies	\$ 3,843	\$ (3,881)
Accounts payable and accrued liabilities	(8,382)	3,421
Unrealized foreign exchange loss (gain) on short-term investments	2,053	–
	<b>\$ (2,486)</b>	<b>\$ (460)</b>
Financing activities:		
Accrued share issue costs	\$ –	\$ (112)
(b) Exploration and development expenditures		
Balance sheet change in mineral properties	\$ (34,461)	\$ (67,723)
Reclassification of mineral properties from prepaid expenses	–	25
Reclassification of mineral properties from construction in progress	13,718	783
Increase (decrease) in resettlement liabilities	(24,766)	13,068
Non-cash depreciation and disposal capitalized	430	504
Stock-based compensation capitalized	1,519	4,809
	<b>\$ (43,560)</b>	<b>\$ (48,534)</b>
(c) Cash and cash equivalents is comprised of:		
Cash	\$ 13,674	\$ 16,652
Short-term investments (less than 90 days) – weighted average interest rate of 0.27% (2008 – 0.78%)	102,436	55,581
	<b>\$ 116,110</b>	<b>\$ 72,233</b>

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**Savings derived from using post-consumer recycled fibre in lieu of virgin fibre:**

- 32 trees preserved for the future
- 92 lbs. of waterborne waste not created
- 13,588 gallons of wastewater flow saved
- 1,503 lbs. of solid waste not generated
- 2,960 lbs. of net greenhouse gases prevented
- 22,657,600 BTUs of energy not consumed

**Savings from use of emission-free wind-generated electricity:**

- 1,503 lbs. of greenhouse gas emissions not generated
- 1.6 barrels of fuel oil unused
- not driving 1,487 miles
- planting 102 trees



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