

# 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 three-month periods ended March 31, 2011 and 2010.*

*Gabriel Resources Ltd. ("Gabriel" or the "Company") adopted International Financial Reporting Standards ("IFRS") with effect from January 1, 2011 and a transition date of January 1, 2010.*

*The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto of the Company as at and for the three-month periods ended March 31, 2011 and 2010 ("Statements"). The Statements have been prepared using accounting policies in accordance with IFRS and International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles to IFRS is set out in Note 22 of the Statements. All amounts included in the MD&A are in Canadian dollars, unless otherwise specified. This report is dated as of May 5, 2011, 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-listed resource company engaged in the exploration and development of mineral properties in Romania and is presently in the permitting stage and preparing to develop its 80.46%-owned Rosia Montana gold project (the "Project"). Minvest S.A., a Romanian state owned mining company, and one other private Romanian company, hold a combined 19.54% interest in Rosia Montana Gold Corporation ("RMGC"), the beneficial owner of the Project, and Gabriel holds the pre-emptive right to acquire the 19.54% non-controlling interest. RMGC will be required to pay 4% net smelter royalty on all production from the Project to the Romanian Government.

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

## Key Issues

### *Political Situation*

Mr. Traian Basescu was elected President for a second five-year term in 2009. President Basescu asked former Prime Minister Emil Boc to form a new government which was sworn in on December 22, 2009 comprised of the PDL, the Hungarian-ethnic UDMR alliance, plus Independent and Minority bloc parliamentarians. In February 2011, Mr. Keleman Hunor was elected as the leader of the UDMR Party and has remained the Minister of Culture. Throughout

the first quarter of 2011, the Romanian Government has continued to implement austerity measures intended to reduce Romania's budget deficit and comply with the requirements of the International Monetary Fund's emergency aid programme. The coalition Government has survived non-confidence motions proposed by opposition parties and has passed new legislation as proposed in the coalition's agreed common political programme. The next Parliamentary elections are scheduled to take place in November 2012 and there will be local government elections in June 2012. Given the critical importance of sustained economic development for Romania, the Company continues to draw public and political attention to the significant economic opportunity the Project represents, while setting or conforming to the highest standards on engineering, environmental, cultural and social matters.

The Project continues to receive support from members of the local and regional political leadership, in keeping with the Government's effort to create economic stimuli. On September 17, 2010, the Ministry of Environment ("MOE") recommenced the Technical Analysis Committee ("TAC") review of the Project's Environmental Impact Assessment ("EIA"), which had been suspended since the fall of 2007, and the Project is now receiving the objective analysis the Company has long sought.

Management continues to meet with stakeholders to understand their issues and concerns and to explain the benefits and impacts of the Project. Continued strong local and regional support is welcomed by the Company which seeks to grow that support as a direct result of the Company's outreach. The Company's communication efforts are fact-based, focusing on the critically-needed economic benefits the Project will bring to Romania as well as the environmental benefits it will bring to an area that has significant environmental damage from many years of unregulated mining activities. While some political and NGO opposition continues, 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*

As noted above, the Romanian MOE resumed the TAC review for the Project's EIA in September 2010. In July 2010, the members of the TAC were provided with the documentation originally submitted by RMGC to the MOE in 2004 and 2006. The first formal TAC meeting, attended by RMGC, was held on September 22, 2010. RMGC subsequently responded to a list of questions received from the TAC and subsequent TAC meetings were held on December 22, 2010 and on March 9, 2011. On April 5, 2011 the MOE extended the deadline for the public submission of observations and questions for the TAC process by one month to May 5, 2011. At this time it is not known how many further meetings will be required by the TAC to review and to make an assessment of the Project's EIA or how long this process may take. Ultimately, the EIA must be approved by a Cabinet decision of the Romanian Government. The Company still believes this could be achieved by the end of the second quarter.

While the EIA is the most important project approval, there are a significant number of other permits and approvals required to advance the Project to construction, such as zonal urbanization plans for the industrial and protected areas, forestry/agriculture land use change permits, archeological discharge certificates, as well as other permits and approvals that follow the EIA approval. To that end, to the extent these permits and approvals are not dependent on EIA approval or the acquisition of surface rights, the processes for each of these will proceed in parallel with the EIA review process.

The Company is moving forward with the amended industrial zonal urbanization plan (“Amended PUZ”). In March 2011, the Regional Environmental Protection Agency in Sibiu granted RMGC the Strategic Environmental Assessment (“SEA”) approval relating to the Amended PUZ. By the end of March 2011, the Project had obtained 10 endorsements out of the total of 12 endorsements necessary for the final approval of the Amended PUZ. In addition to this, RMGC has obtained 13 endorsements out of the 22 necessary in respect of the zonal urbanization plan for the protected area (“PUZ – Protected Area”).

The forestry and agricultural land use change permits will proceed after the EIA has been approved and surface rights obtained. Although there is no precedent or regulatory timeline, in the absence of any other extraordinary events, legal or otherwise, the Company expects permitting processes to obtain the majority of the outstanding surface rights acquisitions and other permits and approvals, including initial construction permits for the Project to take approximately one year from the date the EIA and the new archeological discharge certificate for the Carnic deposit are approved by the Romanian government.

### *Litigation*

Over the years a number of foreign funded and Romanian NGOs have initiated a multitude of legal challenges against local, regional and national Romanian regulatory authorities that have the administrative authority to grant permits, authorizations and approvals for many aspects of the exploration and development of the Project. In general, these legal challenges claim that such regulatory authorities are acting in violation of Romanian laws and ask for cancellation of a particular license, permit or approval. While some of these actions have been successful, most have been proved to be frivolous in the Romanian courts. Gabriel, through RMGC, has intervened in all material cases in order to ensure that the Romanian courts considering these actions are presented with a legally correct, fair and balanced analysis as to why the various Romanian regulatory authorities’ actions are in accordance with the relevant and applicable laws.

On September 29, 2010, a lower court ruled against an NGO claim seeking the suspension of an urbanization certificate, UC 87. This decision was challenged by the NGO, and the first hearing for the appeal was for March 24, 2011 but the hearing has been postponed until May 19, 2011.

RMGC also intervened in a claim challenging the legality of a resolution by the local council of Rosia Montana passed in 2009 re-confirming zoning bylaws initially approved in 2002 for the area. This claim remains before the courts and a hearing was due to be held on April 5, 2011 but it has been postponed on a number of occasions with the next hearing due to be held on May 17, 2011. A second case also seeking the suspension of the local council resolution has been started in the Cluj Tribunal by NGOs and a hearing is scheduled to be held on May 13, 2011. A third case has been started in the Bucharest Tribunal by NGOs on the same matter and a hearing is scheduled for September 14, 2011.

RMGC is intervening in a claim in the Bucharest tribunal for the cancellation of UC 87 that was issued by Alba County Council. The first hearing is scheduled for December 21, 2011.

A case brought by RMGC to recover taxes over the period 2005 to 2007 was heard on May 3, 2011 and the result of this case is awaited.

RMGC’s action before the High Court of Cassation and Justice against the MOE challenging its grounds for suspending the EIA (TAC) review process in 2007 and seeking an order compelling it to re-commence the process has been suspended for one year from January 2011 at the request of all parties given the recommencement of the EIA review process in September 2010.

If a lower or appellate court was to rule against RMGC's interest with respect to UC 87 or to challenge the local council resolution re-confirming local zoning bylaws then such a negative ruling may have a material impact on the permitting process for the Project. The implications of a negative court ruling will only be known once such a decision is issued and the position of the Romanian Government is assessed. In all circumstances, RMGC will vigorously maintain its legal rights and will continue to work with local, county and federal authorities to ensure the Project receives a fair and timely evaluation in accordance with all Romanian and EU laws.

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

There were no other material developments involving litigation matters associated with the Company during the first quarter of 2011.

### *Surface Rights*

As a result of the suspension of the EIA review process in September 2007, the home purchase program at the Rosia Montana site was suspended in February 2008. The acquisition process for private properties is currently on hold, pending progress in the permitting process. The Company owns approximately 78 percent of the homes and 60% of the land in the surface area in the Project footprint comprising the industrial zone, protected area and the buffer zone.

In addition to the remaining private properties still to be acquired, the Company needs to acquire properties (approximately 16 percent of the surface area of the Project) which 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.

Ultimately, the Company's ability to obtain construction permits for the mine and plant is predicated on securing 100 percent of the surface rights within the footprint of the construction permits 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. The construction of all 125 homes in Recea has been completed. This project stands as visible testimony to the determination of the Company to deliver on its promises to the people of Rosia Montana.

The Company is currently completing the review of the technical merits for the expansion of Recea and a feasibility study is ongoing for a further resettlement village to be built close to Rosia Montana for the remaining 24 homeowners who have chosen to be resettled, as well as the process of obtaining permits for its construction.

### *Archaeology*

An archaeological review of the historical mining activity at Rosia Montana is a critical step in the granting of the construction permit to build the Project. A number of archaeological discharge certificates are required for various parts of the area within 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 High Court of Cassation and Justice in December 2008. The Company has reviewed the Court's written reasons for this decision and submitted documents in 2010 for obtaining a new archeological discharge certificate through a revised application prepared by independent researchers that it believes will address all deficiencies identified by the Court.

The Company has continued maintenance work on 160 houses located in the historical center of Rosia Montana, with the aim to stop their deterioration. While these houses are not designated as historic, their restoration will contribute to maintaining the character of Rosia Montana village. This emergency conservation work will continue through a multi-year program, which will run in parallel with the construction and the operations phase of the mining project. RMGC is working in partnership with the local council to restore iconic houses (the old school house and former town hall) in the protected area and rehabilitating four houses which will be used as accommodation for RMGC personnel. Strategic planning documents are being prepared for prioritizing the design and restoration process for the houses under the footprint of the protected area.

### **Liquidity and Capital Resources**

Cash, cash equivalents and short term investments at March 31, 2011 totaled \$111.6 million.

During the three months ended March 31, 2011, the Company issued 291,000 common shares on the exercise of stock options for aggregate gross proceeds of approximately \$785,000.

The base budget and forecast for 2011 on the Project totals \$57.5 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, the completion of control estimate, and the higher activity to acquire all permits and approvals required to apply for construction permits are estimated to cost in aggregate a further \$104.5 million during 2011. Corporate overhead costs are expected to total an additional \$9.0 million in the year.

### **Financing Plan**

The estimated capital cost to complete the development of the Project from the March 2009 NI 43-101 Technical Report ("Technical Report"), including interest, financing and corporate costs, is approximately US\$1 billion. Once EIA approval has been granted, the Company will re-examine financing alternatives open to the Company at that time.

## **Project Timeline**

- The EIA was submitted in the second quarter of 2006.
- A new urbanism certificate for the Project was delivered to the MOE in May 2010.
- On September 17, 2010 the MOE recommenced the TAC review of the Project's EIA.
- The first TAC meeting was held on September 22, 2010 and subsequent TAC meetings were held on December 22, 2010 and on March 9, 2011

At this stage, it remains management's belief that once the EIA for the Project and the new archeological discharge certificate for the Carnic area are approved by the Romanian Government, in the absence of any other extraordinary events, legal or otherwise, it would take approximately one year to:

- Complete the majority of outstanding surface rights acquisitions;
- Receive the majority of other permits and approvals, including initial construction permits; and
- Complete the control estimate and complete initial documentation on any potential third party project financing.

Once construction of the mine begins, it is estimated to take approximately 30 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 Project, subject to the Romanian courts dealing with litigation from NGOs and any other parties in a timely manner. In the absence of further unforeseen delays the Project is expected to pour first gold by the end of 2014.

## **Outlook**

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

- Continue with public relations efforts to increase Romanian public and Government support and backing for the Project;
- Obtain approval of the EIA and all other required permits that allow construction activities to commence; and
- Continue to maximize shareholder value, while optimizing the Project benefits to those in the community and the surrounding area.

## Results of Operations

The results of operations are summarized in the following tables, which have been prepared in accordance with IFRS except for the quarters of 2009 which have been presented in accordance with Canadian GAAP:

<i>in thousands of Canadian dollars, except per share amounts</i>	<b>2011 Q1</b>	<b>2010 Q4</b>	<b>2010 Q3</b>	<b>2010 Q2</b>
<b>Statement of Loss (Income)</b>				
Loss (Income)	\$ 1,102	\$ 9,487	\$ (13,107)	\$ 11,420
Loss (Income) per share - basic	0.003	0.027	(0.038)	0.033
Loss (Income) per share - diluted	0.003	0.027	(0.033)	0.033
<b>Balance Sheet</b>				
Working capital	102,720	109,753	122,874	110,278
Total assets	554,345	527,449	537,530	481,828
<b>Statement of Cash Flows</b>				
Investments in development and exploration including working capital changes	8,595	13,225	14,883	10,384
Cash flow from financing activities	785	8,397	10,085	3,764

<i>in thousands of Canadian dollars, except per share amounts</i>	<b>2010 Q1</b>	<b>2009 Q4</b>	<b>2009 Q3</b>	<b>2009 Q2</b>
<b>Statement of Loss</b>				
Loss	\$ 16,019	\$ 10,729	\$ 7,082	\$ 1,798
Loss per share - basic and diluted	0.047	0.030	0.020	0.010
<b>Balance Sheet</b>				
Working capital	124,604	148,715	95,838	109,518
Total assets *	525,078	658,694	608,399	624,991
<b>Statement of Cash Flows</b>				
Investments in development and exploration including working capital changes	13,045	15,058	10,689	9,141
Cash flow from (used in) financing activities	857	70,260	(435)	112,906

\* Total assets fall between 2009 Q4 and 2010 Q1 due to the conversion to IFRS and the effect of translating these assets at current exchange rates.

## Statement of Loss

	3 months ended March 31,	
<i>in thousands of Canadian dollars, except per share amounts</i>	2011	2010
Total operating expenses for the period	\$ 4,177	\$ 2,995
Loss for the period	1,102	16,019
Loss per share - basic and diluted	0.003	0.047

Total operating expenses for the three-month period ended March 31, 2011 increased from the corresponding period in 2010 primarily due to the higher stock-based compensation expense reflecting the amortization related to DSUs issued to the Company's CEO that are being expensed over a two-year period and the accelerated fair value expensing of performance based stock options under IFRS.

The loss for the three-month period ended March 31, 2011 decreased from the same period in 2010 due to a positive swing of \$16.1 million in foreign currency exchange movements and lower corporate and financing costs, partially offset by higher stock-based compensation expense of \$1.6 million.

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

## Expenses

### *Corporate, General and Administrative*

	3 months ended March 31,	
<i>in thousands of Canadian dollars</i>	2011	2010
Finance	\$ 658	\$ 233
External communications	131	192
Information technology	46	74
Legal	154	159
Payroll	328	669
Other	287	398
Corporate, general and administrative expense	\$ 1,604	\$ 1,725

Corporate, general and administrative costs are those costs incurred by the corporate offices. Corporate, general and administrative costs for the three-month period ended March 31, 2011 were lower than the same period in 2010 reflecting the reduction in staff in the corporate office. Corporate, general and administrative costs are anticipated to rise (excluding the cost of non-recurring items) once the Project is permitted and the Company increases its staffing for construction and operations.

## Stock Based Compensation

	3 months ended March 31,	
<i>in thousands of Canadian dollars</i>	2011	2010
DSUs - expensed (recovered)	\$ 223	\$ (33)
Stock option compensation - expensed	2,299	962
Stock based compensation - expensed	\$ 2,522	\$ 929
DSUs - capitalized	\$ -	\$ 2
Stock option compensation - capitalized	3,942	1,287
Stock based compensation - capitalized	\$ 3,942	\$ 1,289
<b>DSU Compensation</b>		
Number of DSUs issued	83,938	5,962
Average value ascribed to each DSU issued	\$ 8.06	\$ 4.34

DSU costs for the first quarter of 2011 primarily reflect the quarter's amortization related to the 357,995 DSUs, issued to the Company's CEO, which are being expensed over a two-year period.

Initially valued at the five day weighted average 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 total value of the DSUs at period end compared to the value at the end of the previous period. The change in share price of the DSU's at the end of the period is charged to the Statement of Loss or capitalized for DSUs granted to personnel working on development projects. Overall, for the three-month period ended March 31, 2011, the Company's share price decreased by \$0.54 compared to December 31, 2010, while for the same period in 2010, the Company's share price decreased by \$0.23 from December 31, 2009.

	2011	2010
<b>Stock option compensation</b>		
Number of stock options granted	1,000,000	-
Average value ascribed to each option granted	\$ 5.06	\$ -
Options granted to corporate employees, consultants, officers, and directors	1,000,000	-

The estimated fair value of stock options is amortized over the period in which the options vest, which is normally three years. For performance options the fair value is expensed over the estimated vesting period from the time of grant. Once the performance conditions have been attained, which trigger full vesting of the options, the remaining fair value, if any, is expensed.

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

During the three-month period ended March 31, 2011, the Company granted 1.0 million options. Of the 1.0 million options granted, 0.5 million vest over a three-year period and the remainder vest based on achievement of certain milestones. The fair value of options that vest upon

achievement of milestones will be recognized and expensed over the estimated vesting period of the performance option.

## Project Financing Costs

<i>in thousands of Canadian dollars</i>	<b>3 months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Project Financing Costs	\$ 2	\$ 112

Project financing costs for the three-month period ended March 31, 2011 decreased compared to the same period in 2010 primarily due to the expiry of warrants that had previously been issued to a service provider. Project financing activities include advisory services.

## Interest Income

<i>in thousands of Canadian dollars</i>	<b>3 months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Interest Income	\$ 126	\$ 121

Higher interest income in the three-month period ended March 31, 2011 compared to the same period in 2010 is the result of marginally higher interest rates during the 2011 period.

The Company is focused on minimizing credit risk and therefore is foregoing higher yields on its investments and is investing predominantly in short-term government guaranteed instruments. Approximately 94 percent of the Company's cash balances are invested in government guaranteed instruments with the balance in cash deposits with major Canadian banks.

## Foreign Exchange

<i>in thousands of Canadian dollars</i>	<b>3 months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Foreign exchange loss - realized	\$ 136	\$ 410
Foreign exchange loss / (gain) - unrealized	<b>(3,085)</b>	12,733
Total foreign exchange loss	<b>\$ (2,949)</b>	\$ 13,143

During 2009, the Company converted the majority of the cash raised from two private placements and public equity offering to foreign currencies to match its future anticipated foreign denominated expenditures. Since the purchase of foreign currencies, mainly the EURO and the US dollar, the Canadian dollar exchange rate versus the EURO has experienced significant fluctuations. During the three-month period ended March 31, 2011 the EURO strengthened against the Canadian dollar thereby creating foreign exchange gains in the current period compared to foreign exchange losses suffered in the comparative prior period.

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

All tax assessments have been paid and provided for in the 2008, 2009 and 2010 financial statements.

## Investing Activities

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

### *Mineral Properties*

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

Listed below is a summary of expenditures at Rosia Montana for the three-month periods ended March 31, 2011 and 2010.

	<b>3 months ended</b>	
	<b>March 31,</b>	
<i>in thousands of Canadian dollars</i>	<b>2011</b>	<b>2010</b>
Finance and administration	\$ 1,237	\$ 1,677
External communications	2,355	2,380
Legal	1,522	1,213
Permitting	680	400
Community development	1,301	1,139
Project management and engineering	5,831	2,352
Exploration - Rosia Montana	181	164
Capitalized depreciation and disposals	(73)	(112)
Capitalized stock based compensation	(3,942)	(1,287)
Decrease in resettlement liabilities	129	221
<b>Total exploration and development expenditures</b>	<b>\$ 9,221</b>	<b>\$ 8,147</b>

During the three-month period ended March 31, 2011, finance and administration costs were lower than the corresponding 2010 periods primarily due foreign exchange effects resulting from lower trade payables and resettlement liabilities.

The increase in legal costs for the three months ended March 31, 2011 compared to the same period last year reflects the additional efforts of the Company's outside lawyers related to the ongoing EIA review process.

Community development costs increased for the three months ended March 31, 2011 compared to the same period in 2010 due to the continuation of programs to support the local community which began in the second half of 2010. The Company has hired additional local personnel to assist with the stabilization and maintenance of buildings owned in the Rosia Montana commune, community enhancement projects such as clearing debris from the Aries river catchment area and general administrative functions.

Project management and engineering costs increased for the three months ended March 31, 2011 due to increased activity related to the restart of the TAC process.

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 to exploitation license will not be made until a decision on the Project is made.

### *Purchase of Capital Assets*

	<b>3 months ended March 31,</b>	
<i>in thousands of Canadian dollars</i>	<b>2011</b>	<b>2010</b>
Resettlement site development costs	\$ -	\$ 1
Investment in long-lead-time equipment	<b>261</b>	925
Other	<b>75</b>	108
<b>Total investment in capital assets</b>	<b>\$ 336</b>	<b>\$ 1,034</b>
Depreciation and disposal - expensed	\$ 49	\$ 58
Depreciation and disposal - capitalized to mineral properties	\$ -	\$ 112

The final installments for the processing mills are expected to be made later in 2011 (\$0.5 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 four main locations in accordance with each manufacturer's specifications.

## **Cash Flow Statement**

### *Liquidity and Capital Resources*

Until receipt of the environmental permits for the Project, the only source of liquidity is the Company's 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 in the Technical Report of March 2009. To fund the development of the Project, the Company will need financing of approximately US\$1 billion, comprising the capital costs of US\$876 million plus working capital, interest, financing and corporate costs estimated at US\$124 million. Once EIA

approval has been granted, the Company will re-examine financing alternatives open to the Company at that time.

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 March 31, 2011, cash, cash equivalents, and short-term investments were \$111.6 million compared to \$136.9 million at March 31, 2010. Substantially all of these amounts are invested in government issued securities.

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 derivatives hedging activities. The Company maintains Canadian dollar investments to fund corporate costs while most investments are denominated in Euros to match planned foreign currency expenditures. The Company incurs foreign currency gains and losses on those foreign denominated investments as the currencies fluctuate against each other. Accordingly, 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 \$0.1 million.
- For short-term investments a plus or minus 1% change in earned interest rates would affect net income by \$0.2 million.
- The Company holds significant balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of March 31, 2011 a plus or minus 1% change in foreign exchange rates would affect net income by \$0.2 million.

The Company's objective when managing capital is to safeguard its accumulated capital in order to fund development of the Project. The Company manages its capital structure and makes adjustments to it based on the level of funds on hand and anticipated future expenditures. While the Company expects that it will be able to obtain equity, long-term debt and/or project-based financing sufficient to build and operate the Project, there are no assurances that these initiatives will be successful. To safeguard capital and to 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 March 31, 2011 the Company had working capital, calculated as total current assets less total current liabilities, of \$102.7 million versus \$109.8 million as at December 31, 2010. The decrease in working capital during the three-month period ended March 31, 2011 relates to the expenditures on the Project.

As at March 31, 2011 the Company had current liabilities of \$11.9 million of which \$4.6 million relates to resettlement obligations stemming from the acquisition of homes in the Project area.

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

Operating non-cash working capital increased for the three months ended March 31, 2011 compared to the same period in 2010 due to a decrease in accounts payable and accrued liabilities since the previous period end.

The increase in investing non-cash working capital for the three months ended March 31, 2011 compared to the same period in 2010 is primarily due to the unrealized foreign exchange gain on short-term investments.

### **Related Party Transactions**

In December 2004, the Company loaned a total of US\$971,000 to the four non-controlling 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. At March 31, 2011, US\$948,000 of these loans remains outstanding.

In 2009, the Company loaned a further US\$40 million to the remaining two non-controlling shareholders of RMGC to facilitate another statutory share capital increase in RMGC. At March 31, 2011 these loans remain outstanding. The loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans and related non-controlling interest contribution have been offset on the balance sheet until such time as the loans are repaid. Once the loans are repaid the non-controlling interest component will be reflected on the balance sheet.

### **Resettlement Liabilities**

For a number of years, RMGC has had a program for purchasing homes in the Project area, which was suspended in February 2008 due to the suspension of the EIA review process in September 2007. The homeowners could either choose to take the sale proceeds and move to a new location of their choosing or they could exchange their properties for a new property to be built by RMGC at one of the two 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 are 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 at the same time its resettlement liabilities. All resettlement associated costs will remain capitalized in mineral properties and amortized over the life of the mine once the Project moves into production.

At March 31, 2011 the Company had accrued resettlement liabilities totaling \$4.6 million (December 31, 2010 – \$4.7 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. The Company is currently reviewing the technical merits of a new resettlement village to be built in Rosia Montana, as well as the process of obtaining permits for this site. All remaining 24 property owners who chose a new resettlement site have signed a three-year extension contract. As a result of the delay in delivery of homes, the Company has paid or accrued a penalty of up to 20% of the agreed upon unpaid property value per year of delay as

required by the agreement.

At March 31, 2011 the Company has accrued \$0.6 million (December 31, 2010 - \$0.6 million) representing its total estimated delay penalty. During the three months ended March 31, 2011, the Company paid \$42,000 of delay penalties (2010 – \$58,000).

## 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 5 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. The Company is currently assessing exploration data with a view to renewing or relinquishing the license.

The Company and its subsidiaries have a number of agreements with arms-length third parties who provide a wide range of goods and services which totalled \$15.5 million at March 31, 2011 (December 31, 2010 – \$13.6 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 is to be paid over several years beginning in 2007. As at March 31, 2011 outstanding commitments under such agreements totaled \$0.5 million (December 31, 2010 – \$1.6 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:

C\$ thousands	Total	2011	2012	2013	2014	2015	Thereafter
Baisoara exploration license	2,448	2,448	-	-	-	-	-
Resettlement	4,557	4,557	-	-	-	-	-
Goods and services	15,465	13,607	1,537	7	7	7	300
Long lead time equipment	512	512	-	-	-	-	-
Rosia Montana exploitation license	1,407	201	201	201	201	201	402
Surface concession rights	771	15	19	19	19	19	679
Lease agreements	391	227	84	80	-	-	-
<b>Total commitments</b>	<b>25,552</b>	<b>21,566</b>	<b>1,841</b>	<b>308</b>	<b>228</b>	<b>228</b>	<b>1,380</b>

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

C\$ thousands	March 31, 2011	December 31, 2010
Total purchase agreements:		
Grinding area systems	42,003	42,032
Crusher facilities	3,961	3,961
Foreign exchange movement	(620)	(86)
	<b>45,344</b>	45,907
Amount paid to date:		
Grinding area systems	(41,481)	(40,439)
Crusher facilities	(3,961)	(3,961)
Foreign exchange movement	611	74
Outstanding payment obligation	<b>513</b>	1,581

## Adoption of Accounting Standards and Pronouncements under IFRS

The Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian generally accepted accounting principles (“GAAP”) with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (PAEs) in 2006.

The effective changeover date for the Company was January 1, 2011, at which time Canadian GAAP was replaced by IFRS. The Company’s first financial statements prepared under IFRS are the interim financial statements for the three months ended March 31, 2011 which includes full disclosure of its new IFRS policies in Note 4 to these financial statements. These financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian GAAP to IFRS which are set out in Note 22.

### *Impact of IFRS on the Company*

The conversion to IFRS impacts the way the Company presents its financial results. The Company has fully prepared and trained its employees and directors to ensure an appropriate understanding of IFRS during the transition process. Further, the accounting personnel at the Company’s Romanian subsidiary are already familiar with IFRS and have been working with IFRS due to the prior local adoption of IFRS. The impact of the conversion to IFRS on the Company’s accounting systems has been minimal as the Company is still in the permitting and preparing to develop stage. The Company’s internal and disclosure control processes, as currently designed, have not required significant modifications as a result of its conversion to IFRS. The Company has assessed the impacts of adopting IFRS on its contractual arrangements, and has not identified any material compliance issues. The Company has considered the impacts that the transition will have on our internal planning process and compensation arrangements and has not identified any significant impacts.

### *First Time Adoption of IFRS*

IFRS 1, *First Time Adoption of IFRS*, provides for certain mandatory exceptions and optional exemptions for the first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not yet vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to accumulated deficit as at the Transition Date including those foreign currency differences that arise on adoption of IFRS.

### *Significant differences between IFRS and Canadian GAAP in the Company's financial statements*

#### Share Based Payments

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

However, Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. The Company used the straight line amortization method under Canadian GAAP whilst IFRS 2 requires the graded vesting method of amortization. The expense of performance options under Canadian GAAP is typically recognized when the performance criteria are met and is often called “cliff vesting” where all of the expense is recognized upon satisfaction of the performance criteria. However under IFRS the expense associated with performance options must be spread over the expected vesting period of the performance option.

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

Upon adoption of IFRS 2, the accounting policy was retrospectively applied to all equity instruments granted after November 7, 2002, that had not vested at January 1, 2010. The Company has changed both the method of amortization, which gave rise to an accelerated compensation expense, and the method of forfeiture recognition. The impact of IFRS 2 adoption on the transition date is \$4.9 million which has been reflected in contributed surplus, accumulated deficit and mineral properties. In addition a further adjustment of \$1.4 million was made in respect of the three-month period ended March 31, 2010.

#### Exploration and Evaluation Assets

The Company's accounting policy under Canadian GAAP was to capitalize acquisition costs of mineral properties and related direct exploration and development expenses.

Management has determined that under IFRS that the Company's accounting policy for exploration and evaluation assets is that exploration expenditures should be expensed and only capitalized to mineral properties after the completion of a feasibility study.

Consequently exploration costs that were capitalized before the feasibility studies for Rosia Montana and Bucium were completed have been written off as well as all of the exploration costs

related to Baisoara. This policy has resulted in a decrease of the mineral properties carrying value of \$27.3 million together with an increase to accumulated deficit by the same amount. There were no exploration costs incurred in relation to Bucium and Baisoara properties in the three-month period ended March 31, 2010.

#### Property, Plant and Equipment

Property, Plant and Equipment (“PP&E”) can be measured at fair value or at cost under IFRS, whilst under Canadian GAAP, PP&E must be carried on a cost basis and revaluation is prohibited.

Management decided to adopt the cost model for both initial and subsequent recognition as the accounting policy for all classes of assets. As a result there is no significant impact on the adoption of IFRS on the Company’s financial statements.

In accordance with IAS 16 “Property, Plant and Equipment”, the Company needs to 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 on different systematic bases. Based on Management’s evaluation, there is no impact from the component accounting on earnings. Management expects that once the Company enters commercial production the impact of component accounting will be insignificant.

#### Foreign Currency

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” 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”). The functional currency of the corporate office is the Canadian dollar (“CAD”) which is also the presentation currency of the Company’s consolidated financial statements. The functional currency of the Romanian subsidiary is Romanian Lei (“RON”). As the project progresses and the underlying transactions, events and conditions relevant to the entities change, the Company will re-consider 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 Project 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.

Upon adoption of IFRS, all resulting foreign exchange differences from translation of the entities’ assets, liabilities and income statement items are expected to be recognized in other comprehensive income as a separate component of equity. The impact at the transition date under IAS 21 is \$71.0 million. However, the Company elected to eliminate its currency translation adjustment balance in the statement of financial position, as permitted for first-time IFRS adopters. The effect of this elimination was an increase in the accumulated deficit of \$71.0 million. In addition a further adjustment of \$24.6 million was recognized in other comprehensive loss as a separate component of equity in respect of the three-month period ended March 31, 2010.

## Impairment of Assets

Canadian GAAP used a two-step approach to impairment testing: the first step compared the asset carrying values with undiscounted future cash flows to determine whether an impairment exists; and then, if an impairment was indicated, 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. Management has tested for impairment based on criteria established in IAS 36 and concluded that there is no impairment of the existing assets.

## **CEO/CFO Certification**

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

Our CEO and CFO certify that, as at March 31, 2011, the Company's DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the interim 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 the Canadian GAAP.

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

There is no limitation on scope of design as described in paragraph 5.3 of NI 52-109. There has been no change in the Company's ICFR that occurred during the three month period ended March 31, 2011 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 April 29, 2011 was:

	<b>Outstanding</b>
Preferred shares	Nil
Common shares	348,526,338
Common stock options	24,937,940
Common stock warrants	30,000,000
Deferred share units - common shares	530,122
<b>Fully diluted share capital</b>	<b>403,994,400</b>

## Proven and Probable Mineral Reserves

The Company maintains an 80.46 percent economic interest in the Project which, at year end 2010, has aggregate proven and probable reserves as follows, modelled using a gold price of US\$735 per ounce:

Reserve Category	Tonnes	Grade (g/t)		In Situ (Ounces)	
		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
Total	214,931,000	1.46	6.9	10,077,000	47,696,000

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

## Forward-Looking Statements

Certain statements included herein, including capital costs estimates, sustaining capital and reclamation estimates, estimated production and total cash costs of production, future ability to finance the Project and other statements that express management's expectations or estimates regarding the timing of completion of various aspects of the Projects' development or of our future performance, constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and Canadian securities legislation. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule", and similar expressions identify forward-looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. In particular, the 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.

# **Gabriel Resources Ltd.**

Interim Consolidated Financial Statements  
(Unaudited)  
For the period ended March 31, 2011

# Consolidated Statement of Financial Position

As at March 31, 2011, December 31 and January 1, 2010  
(Unaudited and expressed in thousands of Canadian dollars)

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	40,358	26,579	116,110
Short-term investments	5	71,241	94,941	46,201
Accounts receivable		1,877	1,732	1,460
Prepaid expenses and supplies		1,100	941	788
<b>Total current assets</b>		<b>114,576</b>	124,193	164,559
<b>Non-current assets</b>				
Restricted cash	5	171	149	127
Property, plant and equipment	6	51,340	47,460	50,880
Mineral properties	7	388,258	355,647	349,778
<b>Total non-current assets</b>		<b>439,769</b>	403,256	400,785
<b>TOTAL ASSETS</b>		<b>554,345</b>	527,449	565,344
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		7,299	9,754	10,402
Resettlement liabilities	9	4,557	4,686	5,442
<b>Total current liabilities</b>		<b>11,856</b>	14,440	15,844
<b>Non-current liabilities</b>				
Other liabilities	10	4,000	3,615	3,908
<b>Total non-current liabilities</b>		<b>4,000</b>	3,615	3,908
<b>TOTAL LIABILITIES</b>		<b>15,856</b>	18,055	19,752
<b>Equity attributable to owners of the parent</b>				
Share capital	12	763,147	761,943	733,481
Common share purchase warrants	13	11,393	11,393	11,393
Contributed surplus	15	32,850	27,027	22,992
Foreign exchange reserve		(21,706)	(44,876)	-
Accumulated deficit		(247,195)	(246,093)	(222,274)
<b>TOTAL EQUITY</b>		<b>538,489</b>	509,394	545,592
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>554,345</b>	527,449	565,344

Nature of operations and going concern (Note 1)  
Commitments and contingencies (Note 20)

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

# Consolidated Statement of Loss

For the three-month periods ended March 31

(Unaudited and expressed in thousands of Canadian dollars, except per share data)

	Notes	2011	2010
<b>Expenses</b>			
Exploration and development		-	138
Corporate, general and administrative		1,604	1,725
Share-based compensation	14,15	2,522	962
Project financing costs		2	112
Depreciation		49	58
		<b>4,177</b>	<b>2,995</b>
<b>Other expense / (income)</b>			
Interest		(126)	(121)
Foreign exchange loss / (gain)		(2,949)	13,143
<b>Loss before income taxes</b>		<b>1,102</b>	<b>16,017</b>
Income tax expense	16	-	2
<b>Loss for the period</b>		<b>1,102</b>	<b>16,019</b>
<b>Loss per share (basic and diluted)</b>		\$ 0.003	\$ 0.047

# Consolidated Statement of Comprehensive Loss / (Income)

For the three-month periods ended March 31,

(Unaudited and expressed in thousands of Canadian dollars)

	2011	2010
<b>Loss for the period</b>	<b>1,102</b>	<b>16,019</b>
<i>Other comprehensive income</i>		
Currency translation adjustment	(23,170)	24,612
<b>Comprehensive loss / (income) for the period</b>	<b>(22,068)</b>	<b>40,631</b>

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

# Consolidated Statements of Changes in Shareholders' Equity

For the three-month periods ended March 31  
(Unaudited and expressed in thousands of Canadian dollars)

	Notes	2011	2010
<b>Common shares</b>			
At January 1		761,943	733,481
Shares issued on the exercise of share options	12	785	857
Transfer from contributed surplus - exercise of share options	15	419	401
At March 31		763,147	734,739
<b>Common share purchase warrants</b>			
At March 31 and January 1		11,393	11,393
<b>Contributed surplus</b>			
At January 1		27,027	22,992
Share-based compensation	15	6,242	2,282
Exercise of Share options	15	(419)	(401)
At March 31		32,850	24,873
<b>Currency translation reserve</b>			
At January 1		(44,876)	-
Currency translation adjustment - other comprehensive income		23,170	(24,612)
At March 31		(21,706)	(24,612)
<b>Accumulated deficit</b>			
At January 1		(246,093)	(222,274)
Net loss		(1,102)	(16,019)
At March 31		(247,195)	(238,293)
<b>Total shareholders' equity at March 31</b>		<b>538,489</b>	<b>508,100</b>

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

# Consolidated Statement of Cash Flows

For the three-month periods ended March 31  
(Unaudited and expressed in thousands of Canadian dollars)

	Notes	2011	2010
<b>Cash flows provided by / (used in) operating activities</b>			
Loss for the period		(1,102)	(16,019)
Items not affecting cash			
Depreciation		49	58
Share-based compensation		2,522	962
Unrealized foreign exchange loss / (gain)		(3,085)	12,732
		<b>(1,616)</b>	<b>(2,267)</b>
Net changes in non-cash working capital	21	<b>(799)</b>	<b>(1,550)</b>
		<b>(2,415)</b>	<b>(3,817)</b>
<b>Cash flows provided by / (used in) investing activities</b>			
Decrease / (increase) in short-term investments and restricted cash		<b>23,678</b>	(695)
Development expenditures	21	<b>(9,221)</b>	(8,147)
Purchase of capital assets		<b>(336)</b>	(1,034)
Net changes in non-cash working capital	21	<b>626</b>	(4,898)
		<b>14,747</b>	<b>(14,774)</b>
<b>Cash flows provided by financing activities</b>			
Proceeds from the exercise of share options		<b>785</b>	857
		<b>785</b>	<b>857</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>13,117</b>	<b>(17,734)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>		<b>662</b>	<b>(8,393)</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>26,579</b>	<b>116,110</b>
<b>Cash and cash equivalents - end of period<sup>(1)</sup></b>		<b>40,358</b>	<b>89,982</b>

<sup>(1)</sup>At March 31, 2011, closing cash and cash equivalents do not include \$71.2 million (2010 - \$46.9 million) of short-term investments, which had original maturities in excess of 90 days at the time of purchase.

Supplemental cash flow information (Note 21)

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

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, 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”). The Company’s registered address is Suite 200 – 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2. 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 and its subsidiary companies’ (the “Group”) mineral properties is dependent upon the existence and economic recovery of such reserves in the future and the ability of the Group to obtain all necessary permits and raise long-term financing to complete the development of the properties. In addition, the Project may be subject to sovereign risk, including political and economic instability, changes in existing government regulations, for example, a ban on the use of cyanide in mining, re-designation of the Project area as a archeological site of national importance, government regulations relating to mining which may withhold the receipt of required permits or impede the Group’s ability to acquire the necessary surface rights, as well as currency fluctuations and local inflation. The suspension of the review of the Rosia Montana Environmental Impact Assessment (“EIA”) by the Ministry of Environment in September 2007 (subsequently resumed in September 2010) demonstrates the significant risks that the Project may face. Such risks may adversely affect the Group’s investments and may result in the impairment or loss of all or part of the Group’s investments.

These consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a “going concern”, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at March 31, 2011 the Group had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

Once EIA approval has been granted, the Company will re-examine financing alternatives with a view to presenting the various options open to the Company to its board of directors. The timeline to build the Project is dependent on a number of factors which include both the permitting and financing processes

There can be no assurances that the Company’s financing alternatives 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 interim consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate, in which case adjustments, which could be material, to the carrying values of the assets and liabilities, the reported expenses and the statement of financial position classifications would be necessary.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 2. Statement of compliance

The Group has adopted IFRS for the year ending December 31, 2011 and has accordingly prepared the consolidated interim financial statements for the three-month period ended March 31, 2011, the first quarterly reporting date for which the Group is required to apply IFRS.

As this is the first time IFRS standards have been applied, special rules apply in converting the comparatives and the opening balance sheets at the transition date of January 1, 2010 (the "Transition Date"). The rules applied on transition to IFRS are set out in Note 22 along with statements of the impact of such transition.

The consolidated interim financial statements for the three-month period ended March 31, 2011 have been prepared in accordance with International Accounting Standard IAS 34 ('Interim Financial Reporting'). In order to ensure that appropriate comparative information is presented, IFRS requires that an opening IFRS balance sheet be prepared as at the Transition Date, which is a date one year prior to the adoption of IFRS. The Group's opening IFRS balance sheet at January 1, 2010 has been prepared in accordance with IFRS 1 ('First-time Adoption of International Financial Reporting Standards').

The format of financial statements and certain accounting policies differ under IFRS compared with Canadian Generally Accepted Accounting Principles ("GAAP"). Comparative financial information previously published under Canadian GAAP has therefore been adjusted on an IFRS basis for the opening balance sheet at January 1, 2010 and the three-month period ended March 31, 2010 and the balance sheet as at December 31, 2010.

The change in the Group's reported performance and financial position arising on adoption of IFRS is described in detail in Note 22 to these consolidated interim financial statements.

As a result of ongoing review and possible amendments by interpretive guidance from the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"), IFRS in effect at December 31, 2011 may differ from IFRS and interpretation statements applied in preparing the consolidated financial statements for the year ended December 31, 2010 and consolidated interim financial statements for the three-month periods ended March 31, 2011 and 2010.

## 3. Basis of preparation and recent accounting changes

The unaudited consolidated interim financial statements for the three-month period ended March 31, 2011 have been prepared in accordance with IFRS. The preparation of these unaudited consolidated interim financial statements is based on accounting policies and practices in accordance with IFRS and should not be compared to those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2010, as the audited annual consolidated financial statements were prepared under accounting policies and practices in accordance with Canadian GAAP. The accompanying unaudited consolidated interim financial statements also should not be read in conjunction with the notes to the Group's audited annual consolidated financial statements for the year ended December 31, 2010, since they do not contain all disclosures required by IFRS for audited annual financial statements, although management is of the opinion that the disclosures for the three-month period ended March 31, 2011 have been enhanced above required IFRS quarterly disclosures. These unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 4. Significant changes to the Group's accounting policies following adoption of IFRS 1 ('First time adoption of IFRS')

### *Basis of consolidation*

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

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

Gabriel Resources (Barbados) Ltd.	100%-owned
Gabriel Resources (Netherlands) B.V.	100%-owned
Gabriel Resources (Jersey) Ltd.	100%-owned
RM Gold Services Ltd	100%-owned
Rosia Montana Gold Corporation S.A. ("RMGC")	80.46%-owned
Rom AUR SRL ("Rom Aur")	100%-owned
Gabriel Finance SA	99.91%-owned

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

### *Critical accounting estimates, risks and uncertainties*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience. Significant estimates and assumptions include those related to the recoverability of mineral properties and benefits of future income tax assets, estimated useful lives of capital assets, share compensation valuation assumptions and determinations as to whether costs are expensed or deferred. While management believes that these estimates and assumptions are reasonable, actual results may differ from the amounts included in the financial statements.

### *Foreign currency translation*

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the corporate office is Canadian dollar ("CAD") and the functional currency of RMGC, the Romanian subsidiary, is Romanian Lei ("RON"). The consolidated financial statements are presented in CAD which is the Group's presentation currency.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 4. Significant changes to the Group's accounting policies following adoption of IFRS 1 ('First time adoption of IFRS') (continued)

### (b) Transactions and balances

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

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

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

### *Property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment used for exploration and development is capitalized to mineral properties.

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

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

### *Exploration and evaluation assets and development expenditures*

Exploration and evaluation costs, including the cost of acquiring licenses, are expensed as exploration costs in the Consolidated Statement of Loss and Comprehensive Loss until the determination of the technical feasibility and the commercial viability of the Project. Exploration costs include costs directly related to exploration and evaluation activities in the area of interest. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when economically recoverable reserves are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. This determination is normally evidenced by the completion of a technical feasibility study. Once the technical feasibility study is completed, subsequent exploration and development expenses are capitalized in Mineral Properties. Upon reaching commercial production, these capitalized costs will be transferred from development properties to producing properties on the Consolidated Statement of Financial Position and will be amortized using the unit-of-production method over the estimated period of economically recoverable reserves.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 4. Significant changes to the Group's accounting policies following adoption of IFRS 1 ('First time adoption of IFRS') (continued)

General and administrative costs are expensed in the Consolidated Statement of Loss and Comprehensive Loss.

### *Impairment of long-lived assets*

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

### *Income taxes*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, plus any adjustment to taxes payable in respect of previous years. Deferred income taxes are recognized, using the liability method, on temporary differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable the assets can be recovered.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks, cash on hand and other highly liquid short-term investments, having an original maturity date of 90 days 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 which approximates fair value.

### *Financial instruments*

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

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 4. Significant changes to the Group's accounting policies following adoption of IFRS 1 ('First time adoption of IFRS') (continued)

### *Share based payments*

The Company operates equity settled share based compensation plans for remuneration of its directors, officers and employees.

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

Share-based compensation relating to share options is charged to the Consolidated Statements of Loss and Comprehensive Loss or capitalized to Mineral Properties on the Consolidated Statement of Financial Position over the vesting periods with corresponding adjustments to equity.

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

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

This accounting policy has been applied to all equity instruments granted after November 7, 2002 that have not yet vested at January 1, 2010, as set out further in Note 22.

### *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 has not been considered.

### *Employee benefits*

Under a collective bargaining agreement between RMGC and its employees, under certain conditions, employees of RMGC are entitled to a bonus 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. The obligation is determined on an actuarial basis and is affected by a number of expert assumptions and estimates. The accrued bonuses are recorded as a liability and the expense is capitalized as part of mineral properties.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 4. Significant changes to the Group's accounting policies following adoption of IFRS 1 ('First time adoption of IFRS') (continued)

### *Provisions*

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

On recognition of a provision, an addition is made to the asset category the provision relates to and charged against profits on a unit of production basis.

At March 31, 2011, the Group has not incurred or committed to any asset retirement obligations related to the development of its mineral properties in Romania.

## 5. Cash and cash equivalents

As at	March 31, 2011	December 31, 2010	January 1, 2010
Cash at bank and on hand	8,790	4,913	13,674
Short-term bank deposits	31,568	21,666	102,436
Cash and cash equivalents	40,358	26,579	116,110
Restricted cash	171	149	126
	40,529	26,728	116,236

Cash at bank and on hand earns interest at a floating rates based on daily bank deposit rates. Cash is deposited at highly reputable financial institutions of a high quality credit standing within Canada. The Group manages its domestic Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources in Canada and only transferring money to its Romanian subsidiary based on immediate cash requirements, thereby mitigating exposure to domestic Romanian banks.

Restricted cash represents environmental guarantees for future clean up costs.

Short-term bank deposits represent investments in government treasury bills, including French sovereign treasuries, German sovereign treasuries and Canadian sovereign treasuries with maturities from the date of acquisition of less than 90 days.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 6. Property, plant and equipment

	Office equipment	Building	Vehicles	Leasehold improvements	Constuction in progress	TOTAL
<b>COST</b>						
<b>Balance - January 1, 2010</b>	3,633	853	1,014	215	49,151	54,866
Additions	175	-	171	-	3,320	3,666
Disposals	(350)	(2)	(70)	-	(948)	(1,370)
Foreign exchange translation	(307)	(125)	(140)	-	(5,398)	(5,970)
<b>Balance - December 31, 2010</b>	<b>3,151</b>	<b>726</b>	<b>975</b>	<b>215</b>	<b>46,125</b>	<b>51,192</b>
Additions	75	-	-	-	261	336
Disposals	(73)	-	-	-	-	(73)
Foreign exchange translation	127	52	70	-	3,583	3,832
<b>Balance - March 31, 2011</b>	<b>3,280</b>	<b>778</b>	<b>1,045</b>	<b>215</b>	<b>49,969</b>	<b>55,287</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>Balance - January 1, 2010</b>	2,781	53	973	179	-	3,986
Depreciation for the period	433	10	33	25	-	501
Disposals	(313)	-	(69)	-	-	(382)
Foreign exchange translation	(233)	(7)	(133)	-	-	(373)
<b>Balance - December 31, 2010</b>	<b>2,668</b>	<b>56</b>	<b>804</b>	<b>204</b>	<b>-</b>	<b>3,732</b>
Depreciation for the period	94	3	12	6	-	115
Disposals	(65)	-	-	-	-	(65)
Foreign exchange translation	104	3	58	-	-	165
<b>Balance - March 31, 2011</b>	<b>2,801</b>	<b>62</b>	<b>874</b>	<b>210</b>	<b>-</b>	<b>3,947</b>
<b>CARRYING AMOUNT</b>						
<b>At January 1, 2010</b>	<b>852</b>	<b>800</b>	<b>40</b>	<b>36</b>	<b>49,151</b>	<b>50,880</b>
<b>At December 31, 2010</b>	<b>483</b>	<b>670</b>	<b>171</b>	<b>11</b>	<b>46,125</b>	<b>47,460</b>
<b>At March 31, 2011</b>	<b>479</b>	<b>716</b>	<b>171</b>	<b>5</b>	<b>49,969</b>	<b>51,340</b>

<sup>(1)</sup> Amounts included in construction in progress are not subject to amortization.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 6. Property, plant and equipment (continued)

Construction in progress includes the following amounts:

As at	March 31, December 31,	
	2011	2010
Resettlement site development costs	672	624
Long- lead-time equipment	49,293	45,500

## 7. Mineral properties

	Rosia Montana
<b>Balance - January 1, 2010</b>	349,777
Development costs - additions	45,148
Foreign exchange translation	(39,278)
<b>Balance - December 31, 2010</b>	355,647
Development costs - additions <sup>(1)</sup>	13,107
Foreign exchange translation	19,504
<b>Balance - March 31, 2011</b>	<b>388,258</b>

<sup>(1)</sup> Mineral property additions of \$13.1 million (2010 - \$45.1 million) is \$5.2 million higher than the amount reported in the Consolidated Statements of Cash Flows of \$7.9 million. The difference is attributed to a net adjustment of resettlement liabilities partially offset by non-cash charges for share based compensation and amortization (see details in Note 21).

The Company's principal asset is its 80.46% direct ownership interest in the Project held indirectly through RMGC, which holds two mineral licenses in Romania, being the exploitation license for the Project and an exploration license application for the Bucium property. Minvest S.A. ("Minvest"), a Romanian state-owned mining company, together with one other private Romanian company, hold the 19.54% remaining interest in RMGC. The Company holds the pre-emptive right to acquire the 19.54% 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 % gross production royalty on all production from the Project.

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

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 8. Exploration and evaluation expenses

The exploration license for the Bucium property was extended in 2004 and expired on May 19, 2007. The Group 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 Group filed the necessary documentation to convert the exploration license into an exploitation license and the Group 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 to an exploitation license and the EIA for the Project is approved.

The Company, through its wholly owned subsidiary Rom Aur, holds an exploration license with respect to the Baisoara property in Western Romania. The license is for an initial term of 5 years and expires in July 2011. Upon granting of the license, the Group committed to spend US\$3.2 million over the term of the license. Due to previous delays in the Project permitting process, the Group has reduced the exploration expenditure for Baisoara to a level required to maintain the license and permit in good standing. The Group is evaluating the opportunity to register its interest in the exploration licence for Baisoara beyond July 2011.

## 9. Resettlement liabilities

For a number of years, the Group has had a program for purchasing homes in the Project area, which was suspended in February 2008 due to the suspension of the EIA review process in September 2007. Under the resettlement program residents were offered two choices. They could either choose to take the sale proceeds and move to a new location of their choosing or they could exchange their properties for a new property to be built by the Group at one of the two new resettlement sites. For those residents who choose the resettlement option, the Group 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 are capitalized as construction in progress. After the transfer of legal title of the property is completed, the Group reduces the amounts capitalized as construction in progress and, at the same time, its resettlement liabilities. All resettlement associated costs will remain capitalized in Mineral Properties and amortized over the life of the mine once the Project moves into production.

At March 31, 2011, the Group had accrued resettlement liabilities totaling \$4.6 million (December 31, 2010 – \$4.7 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 with 124 homes handed over to their respective owners. The Group is currently reviewing the technical merits for a further resettlement village to be built, as well as the process of obtaining permits for this resettlement site. The remaining 24 property owners who chose to resettle within Rosia Montana have signed a three year extension contract. As a result of the delay in the delivery of homes, the Group paid or accrued a penalty of up to 20% of the agreed unpaid property value per year of delay as required by the agreement. As at March 31, 2011, the Group has accrued \$0.6 million (December 31, 2010 - \$0.6 million) representing its total estimated delay penalty. During the three-months ended March 31, 2011, the Group paid \$42,000 of delay penalties (2010 – \$58,000).

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 10. Other liabilities

### (a) DSUs

<b>Deferred Share Units</b>	<b>DSU's (000's)</b>	<b>Price per common share (dollars)</b>	<b>Value</b>
Outstanding - January 1, 2010	600	4.36	2,616
Granted	41	7.09	290
Amortized <sup>(1)</sup>	89	4.19	375
Settled	(551)	4.49	(2,475)
Change in fair value	-	-	606
Outstanding - December 31, 2010	179	7.89	1,412
Granted	<b>3</b>	<b>7.23</b>	<b>22</b>
Amortized <sup>(1)</sup>	<b>46</b>	<b>4.30</b>	<b>198</b>
Change in fair value	-	-	<b>4</b>
<b>Balance - March 31, 2011</b>	<b>228</b>	<b>7.17</b>	<b>1,636</b>

<sup>(1)</sup> During the three-month period ended June 30, 2010, the Company issued 357,995 DSUs to the Company's CEO. The expense associated with this issuance is being amortized over a two-year period. During the three-month period ended March 31, 2011, 46,000 of these DSUs were amortized and during 2010, 89,000 of these DSUs were amortized.

As set out in Note 4, the Company implemented a DSU Plan under which qualifying participants receive certain compensation in the form of DSUs in lieu of cash. Initially valued at the five-day weighted average market price of the Company's common shares at the date of issue, DSUs are revalued each period end based on the closing price at the period end, with the difference between fair value of the DSUs at the period end compared to the fair value at the end of the previous period. The initial value assigned to the DSUs plus the change in the fair market value of the DSU liability at the end of each reporting period has been recorded in share based compensation expense except for costs relating to personnel working on projects in Romania, which are capitalized.

During the three-month period ended March 31, 2011, the Company recorded \$223,000 (2010 - \$33,000 recovered) of share based compensation expense related to DSUs and capitalized Nil (2010 - Nil).

### (b) Fidelity bonus and other benefits

<b>Fidelity bonus and other benefits</b>	
Balance accrued - January 1, 2010	1,291
Additions	1,083
Foreign exchange translation	(171)
Balance accrued - December 31, 2010	2,203
Foreign exchange translation	<b>161</b>
<b>Balance accrued - March 31, 2011</b>	<b>2,364</b>
<b>Total other liabilities</b>	<b>4,000</b>

As set out in Note 4, a collective bargaining agreement exists between RMGC and its employees. As of March 31, 2011, \$2.4 million (December 31, 2010 - \$2.2 million) has been accrued for these benefits.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 11. Related party transactions

The Group 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) In December 2004, the Company loaned a total of US\$971,000 to the four non-controlling 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. At March 31, 2011 US\$948,000 of these loans remains outstanding to the two remaining non-controlling shareholders.
- (b) In 2009, the Company loaned a further US\$40 million to the remaining two non-controlling shareholders of RMGC to facilitate another statutory share capital increase in RMGC. At March 31, 2011 these loans remain outstanding. The loans are non-interest bearing and are to be repaid as and when RMGC distributes dividends to its shareholders. The loans and related non-controlling interest contribution have been offset on the balance sheet until such time as the loans are repaid. Once the loans are repaid the non-controlling interest component will be reflected on the balance sheet.

## 12. Share capital

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>Note</b>	<b>Number of shares (000's)</b>	<b>Amount</b>
<b>Balance - January 1, 2010</b>		339,200	733,481
Shares issued on the exercise of share options	14	8,909	19,339
Transfer from contributed surplus - exercise of share options	15	-	8,766
Shares issued on DSU settlement	11	74	357
<b>Balance - December 31, 2010</b>		348,183	761,943
Shares issued on the exercise of share options	14	<b>291</b>	<b>785</b>
Transfer from contributed surplus - exercise of share options	15	-	<b>419</b>
<b>Balance - March 31, 2011</b>		<b>348,474</b>	<b>763,147</b>

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 13. Common share purchase warrants

As at March 31, 2011, the following common share purchase warrants were issued and outstanding:

<i>Warrants issued to two financial institutions</i>	<b>Number of warrants (000's)</b>	<b>Exercise price (dollars)</b>	<b>Assigned Value</b>	<b>Expiry date</b>
<b>Balance - January 1, 2010</b>	1,125	4.88	1,500	November 28, 2010
Warrants settled	(750)		(1,000)	November 28, 2010
Warrants lapsed	(375)		(500)	November 28, 2010
<b>Balance - December 31, 2010 and March 31, 2011</b>	-		-	

During 2006, the Company entered into mandate letters with two international financial institutions to arrange project debt financing for the development of the Project. The two institutions were to provide a committed underwriting in an amount up to \$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. Each warrant had a four year term and an exercise price of \$4.88. In March 2010, one of the two financial institutions exercised its option to receive a termination fee of \$1 million in respect of 750,000 warrants which was fully paid during the three-month period ended March, 31 2010. The remaining warrants lapsed on November 28, 2010.

<i>Warrants issued to BSG Capital Markets PCC Limited</i>	<b>Number of warrants (000's)</b>	<b>Exercise price (dollars)</b>	<b>Assigned Value</b>	<b>Expiry date</b>
<b>Balance - January 1, 2010</b>	30,000	2.50-3.00	11,393	June 18, 2011 to December 18, 2011
<b>Balance - March 31, 2011 and December 31, 2010</b>	<b>30,000</b>	2.50-3.00	<b>11,393</b>	June 18, 2011 to December 18, 2011

During 2009, 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 the Company and one common share purchase warrant entitling BSG to purchase one additional common share of the Company at \$2.50 per share for 18 months, rising to \$3.00 per share for the final six months of the two year warrant period. The net proceeds of the private placement were allocated between the share capital and common share purchase warrants on the basis of their relative fair values. The amount allocated to share capital and common share purchase warrants was \$55.8 million and \$11.4 million, respectively.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 14. Common share options

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

The 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. Upon the exercise of issued options, an equivalent number of options are re-endorsed into the pool of un-granted options.

As at March 31, 2011, 9.9 million common share options are available for issuance under the Plan (December 31, 2010 – 9.6 million).

As at March 31, 2011, common share 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)	Weighted average remaining contractual life (years)
1.18 - 1.96	4,451	1.58	2.1	4,185	1.57	2.1
1.97 - 2.22	5,000	2.00	1.7	1,667	2.00	1.7
2.23 - 4.16	4,535	3.08	2.7	3,213	3.02	2.5
4.17 - 7.18	4,922	4.66	3.7	1,271	4.63	2.3
7.19 - 8.12	6,081	8.11	4.7	70	8.11	4.7
	24,989	4.13	3.1	10,406	2.50	2.2

During the year ended December 31, 2010 and the three-month period ended March 31, 2011, director, officer, employee and consultants common share options were granted, exercised and cancelled as follows:

	Number of options	Weighted average exercise price (dollars)
Balance - January 1, 2010	24,234	2.29
Options granted	9,432	6.54
Options forfeited / cancelled	(476)	3.75
Options exercised	(8,909)	2.17
Balance - December 31, 2010	24,281	3.95
Options granted	1,000	8.08
Options exercised	(292)	2.75
<b>Balance - March 31, 2011</b>	<b>24,989</b>	<b>4.13</b>

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 14. Common share options (continued)

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

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

During the three-month period ended March 31, 2011, the Company granted 1.0 million options. Of the 1.0 million options issued, 0.5 million vest over a three-year period and the remainder vest based on achievement of certain milestones. The fair value of options that vest upon achievement of milestones will be recognized and expensed over the estimated vesting period of the performance options.

The valuation of the common share options granted in the three-month periods ended March 31, 2011 and 2010 was calculated with the following assumptions:

	<b>3 months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Weighted average risk-free interest rate	<b>2.28%</b>	-
Volatility of the expected market price of share	<b>94%</b>	-
Weighted average expected life of options	<b>3.4</b>	-
Estimated forfeiture rate	-	-
Weighted average cost per option	<b>5.06</b>	-

As of March 31, 2011, the remaining fair value of outstanding unvested options to be expensed is \$12.4 million and to be capitalized is \$18.9 million. For the three months ended March 31, 2011 and 2010, fair value of share options are expensed and capitalized as follows:

	<b>3 months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2011</b>
Expensed	<b>2,299</b>	962
Capitalized	<b>3,942</b>	1,287

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 15. Contributed surplus

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

	<b>Total</b>
<b>Balance - January 1, 2010</b>	22,992
Share-based compensation	12,801
Exercise of share options	(8,766)
<b>Balance - December 31, 2010</b>	27,027
Share-based compensation	<b>6,241</b>
Exercise of share options	<b>(418)</b>
<b>Balance - March 31, 2011</b>	<b>32,850</b>

## 16. Income taxes

In April 2010, the Supreme Court in Romania admitted an RMGC appeal and cancelled irrevocably a fiscal assessment concerning the period 2003 and 2004 which totaled \$9.8 million. The original assessment arose from the disallowance of the application of state tax incentives related to unrealized foreign exchange gains on inter-company debt.

The Group is also seeking to obtain a reimbursement for the taxes paid in 2005 to 2007 once the Supreme Court decision is received. The timeframe and process for seeking recovery of the full amount is uncertain at this time. As of March 31, 2011 no amount was recorded in the financial statements in relation to a potential reimbursement to the period 2005 to 2007. All tax assessments have been paid and provided for in the 2008, 2009 and 2010 financial statements.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
*(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)*

## 17. Segmented information

The Group has one operating segment: the exploration, evaluation and development of precious metal mining projects located in Romania.

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

	Mining		Administration		Total	
	2011	2010	2011	2010	2011	2010
<b>For the three-month periods ended March 31,</b>						
<b>Reportable items in the Consolidated Statements of Loss and Comprehensive Loss</b>						
Finance income	-	-	(126)	(121)	(126)	(121)
Finance expenses	-	-	(2,949)	13,143	(2,949)	13,143
Amortization	-	-	49	58	49	58
Reportable segment loss	-	-	1,102	16,019	1,102	16,019
<b>Balance - March 31,</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Reportable segment in Consolidated Statement of Financial Position</b>						
Reportable segment assets	30,633	82,399	84,114	56,443	114,747	138,842
Reportable segment non - current assets	389,618	348,520	49,980	37,716	439,598	386,236
Reportable segment liabilities	(12,146)	(11,952)	(3,710)	(5,027)	(15,856)	(16,979)

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 18. Financial instruments

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

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

### *Credit risk*

The Group's credit risk is primarily attributable to cash, cash equivalents, and short-term investments that are held in investment accounts with Canadian banks and invested in sovereign debt. The Group has adopted a strategy to minimize its credit risk by substantially investing in sovereign debt issued by Germany and France with the balance of cash being invested in short-term Term Deposits with Canadian banks.

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

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

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

### *Liquidity risk*

The Group has sufficient funds as at March 31, 2011 to settle current and long-term liabilities.

### *Market risk*

#### (a) Interest rate risk

The Group has significant cash balances and no debt. As discussed above in this note, the Group's policy is to primarily invest excess cash in sovereign guaranteed investments.

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

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

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

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 18. Financial instruments (continued)

### (b) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar and its operations expose it to significant fluctuations in foreign exchange rates. The Group 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 Group 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 Group may report significant foreign exchange gains or losses during periods of significant economic and market volatility.

### *Financial instruments*

As at March 31, 2011 and December 31, 2010, the Group'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 Group estimates that their fair values approximate their carrying values at March 31, 2011 and December 31, 2010 respectively.

The following table illustrates the classification of the Group's financial instruments within the fair value hierarchy as at March 31, 2011:

<b>Financial assets and liabilities at fair value as at March 31, 2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash	-	8,790	-	<b>8,790</b>
Cash Equivalents	-	31,568	-	<b>31,568</b>
Short-term investments	-	71,241	-	<b>71,241</b>
Deferred share units	(1,636)	-	-	<b>(1,636)</b>
	(1,636)	111,599	-	<b>109,963</b>

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities.

**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

**Level 3:** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 18. Financial instruments (continued)

### *Sensitivity analysis*

The Group has designated its cash, cash equivalents, and short-term investments as held-for-trading, which are measured at fair value. As of March 31, 2011, the carrying amount of the financial instruments equals fair market value. Based on management's knowledge and experience of the financial markets, the Group 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 approximately \$0.1 million.
- For short-term investments a plus or minus 1% change in earned interest rates would affect net income by approximately \$0.2 million
- The Group holds significant balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of March 31, 2011 a plus or minus 1% change in foreign exchange rates would affect net income by approximately \$0.2 million.

## 19. Capital management

The Group's objective when managing capital is to safeguard its accumulated capital (cash, cash equivalents and short-term investments) in order to fund development of the Project. The Group manages, and makes adjustments to, its capital structure based on the level of funds on hand and anticipated future expenditures.

While the Group expects that it will be able to obtain equity, long-term debt and/or alternative financing sufficient to build and operate the Project, there are no assurances that these initiatives will be successful. To safeguard capital and to mitigate currency risk, the Group invests its surplus capital in highly liquid, highly rated financial instruments appropriate for the currency of the planned expenditure.

## 20. Commitments and contingencies

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

	note	Total	2011	2012	2013	2014	2015	Thereafter
Baisoara exploration license	8	2,448	2,448	-	-	-	-	-
Resettlement	9	4,557	4,557	-	-	-	-	-
Goods and services	a	15,465	13,607	1,537	7	7	7	300
Long lead time equipment	b	512	512	-	-	-	-	-
Rosia Montana exploitation license	c	1,407	201	201	201	201	201	402
Surface concession rights	d	771	15	19	19	19	19	679
Lease agreements	e	391	227	84	80	-	-	-
<b>Total commitments</b>		<b>25,552</b>	<b>21,566</b>	<b>1,841</b>	<b>308</b>	<b>228</b>	<b>228</b>	<b>1,380</b>

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 20. Commitments and contingencies (continued)

- (a) The Group has a number of ‘arms-length’ agreements with unrelated third parties who provide a wide range of goods and services which totalled \$15.5 million at March 31, 2011 (December 31, 2010 – \$13.6 million). Typically, the service agreements are for a term of not more than one year and permit either party to terminate upon notice periods ranging from 15 to 90 days. Upon termination, the Group has to pay for services rendered and costs incurred to the date of termination.
- (b) During 2007, the Group entered into purchase agreements for long-lead-time equipment, the cost of which has now been largely paid (over the period commencing 2007). The following is a summary of the long-lead-time equipment orders and the payment status:

March 31,	2011	2010
Total purchase agreements:		
Grinding area systems	42,003	41,731
Crusher facilities	3,961	3,961
Foreign exchange translation	(620)	585
	<b>45,344</b>	46,277
Amount paid as at March 31,		
Grinding area systems	(41,481)	(38,340)
Crusher facilities	(3,961)	(3,881)
Foreign exchange translation	611	(456)
Outstanding payment obligation	<b>513</b>	3,600

- (c) Under the terms of the Group’s exploitation mineral license for the Project, an annual fee is required to be paid to maintain the license in good standing. The current annual fee is approximately \$0.2 million. These fees are indexed annually by the Romanian Government and the license has 8 years remaining.
- (d) RMGC has approximately 41 years remaining on a concession agreement with the Local Council of Rosia Montana Commune by which it is granted exploitation rights to property located on and around one of the Project’s proposed open pits for an annual payment of \$20,000.
- (e) The Group 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 financial advisory firm to provide financial advisory services in relation to defining and implementing the financing plan for development of the Project. A success fee of up to US\$3 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 Group 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 3 years from the commencement date of March 1, 2009 until February 29, 2012. The agreed fee consists of annual fee of €450,000 and success fee of €800,000 payable at the end of the 3 year agreement and upon fulfillment of certain criteria. The Group paid or accrued €12,500 for the 2011 annual fee as at March 31, 2011.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
*(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)*

## 21. Supplemental cash flow information

(a) Net changes in non-cash working capital	2011	2010
Operating activities:		
Accounts receivable, prepaid expenses and supplies	(110)	(282)
Accounts payable and accrued liabilities	(749)	(1,309)
Unrealized foreign exchange gain on working capital	60	41
	(799)	(1,550)
Investing activities:		
Accounts receivable, prepaid expenses and supplies	(194)	694
Accounts payable and accrued liabilities	(1,543)	(1,211)
Unrealized gain / (loss) on short-term investments	2,363	(4,381)
	626	(4,898)
(b) Exploration and development expenditures		
Balance sheet change in mineral properties	(13,107)	(9,325)
Decrease in resettlement liabilities	(129)	(221)
Non-cash depreciation and disposal capitalized	73	112
Share based compensation capitalized	3,942	1,287
Exploration and development expenditures per cash flow statement	(9,221)	(8,147)
(c) Cash and cash equivalents is comprised of:		
Cash	8,790	9,807
Short-term investments (less than 90 days) - weighted average interest of 0.53% (2010 - 0.44%)	31,568	80,175
	40,358	89,982

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS

As set out in Note 2, the Group has adopted IFRS for the year ended December 31, 2011. The significant accounting policies adopted are set out in Note 4. In preparing these interim consolidated financial statements the Group has converted to IFRS from Canadian GAAP as at the Transition Date and prepared an opening balance sheet under IFRS at that date. At that date the Group made changes in accounting policies and other restatements required by IFRS 1 ('First-time Adoption of International Financial Reporting Standards'). This note explains the principal adjustments made by the Group in restating its Canadian GAAP balance sheet as at January 1, 2010 and December 31, 2010 and its previously published Canadian GAAP financial statements for the three-month period ended March 31, 2010.

### Exemptions applied

IFRS 1 allows exemptions from the application of certain IFRS requirements to assist companies with the transition process.

Accordingly, the Group has applied the following choices in respect of the optional exemptions from full retrospective application, as set out in IFRS 1.

#### a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the Transition Date.

#### b) Share-based payment transaction exemption

The Group has elected to apply the exemption to IFRS 2 Share-based Payments to equity instruments granted on or before November 7, 2002, and to all awards granted after November 7, 2002 and vested before January 1, 2010.

#### c) Effect of changes in foreign exchange rates

The Group has elected to deem that the cumulative translation differences for all foreign subsidiaries will be zero at the Transition Date as permitted under IFRS 1.

### Reconciliations

The following reconciliations provide details of impact of the Group's transition to IFRS:

- Statement of financial position;
- Statements of loss and comprehensive loss;
- Equity reconciliation;
- Reconciliation of loss and comprehensive loss; and
- Statement of cash flows.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS (continued)

### Reconciliation of statement of financial position:

	Note	As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
		Canadian GAAP	IFRS adjustments	IFRS	Canadian GAAP	IFRS adjustments	IFRS	Canadian GAAP	IFRS adjustments	IFRS
<b>ASSETS</b>										
<i>Current assets</i>										
Cash and cash equivalents		116,110	-	116,110	89,982	-	89,982	26,579	-	26,579
Short - term investments		46,201	-	46,201	46,890	-	46,890	94,941	-	94,941
Accounts receivable		1,460	-	1,460	668	-	668	1,732	-	1,732
Prepaid expenses and supplies		788	-	788	1,169	-	1,169	941	-	941
<i>Total current assets</i>		164,559	-	164,559	138,709	-	138,709	124,193	-	124,193
<i>Non - current assets</i>										
Restricted cash		127	-	127	133	-	133	149	-	149
Property, plant and equipment		52,464	(1,584)	50,880	53,329	(3,908)	49,421	54,641	(7,181)	47,460
Mineral Properties	22 a,b,c)	441,545	(91,767)	349,778	450,018	(113,203)	336,815	482,909	(127,262)	355,647
<i>Total non - current assets</i>		494,136	(93,351)	400,785	503,480	(117,111)	386,369	537,699	(134,443)	403,256
<b>TOTAL ASSETS</b>		<b>658,695</b>	<b>(93,351)</b>	<b>565,344</b>	<b>642,189</b>	<b>(117,111)</b>	<b>525,078</b>	<b>661,892</b>	<b>(134,443)</b>	<b>527,449</b>
<b>LIABILITIES</b>										
<i>Current liabilities</i>										
Accounts payable and accrued liabilities		10,402	-	10,402	8,884	-	8,884	9,754	-	9,754
Resettlement liabilities		5,442	-	5,442	5,221	-	5,221	4,686	-	4,686
<i>Non- current liabilities</i>										
Other liabilities		3,908	-	3,908	2,873	-	2,873	3,615	-	3,615
<i>Total liabilities</i>		19,752	-	19,752	16,978	-	16,978	18,055	-	18,055
<b>SHAREHOLDER'S EQUITY</b>										
Share capital		733,481	-	733,481	734,739	-	734,739	761,943	-	761,943
Common share purchase warrants		11,393	-	11,393	11,393	-	11,393	11,393	-	11,393
Contributed surplus	22 b)	18,050	4,942	22,992	18,500	6,373	24,873	17,150	9,877	27,027
Foreign currency translation reserve	22 a)	-	-	-	-	(24,612)	(24,612)	-	(44,876)	(44,876)
Accumulated deficit	22 a,b,c)	(123,981)	(98,293)	(222,274)	(139,421)	(98,872)	(238,293)	(146,649)	(99,444)	(246,093)
Non-controlling interest		-	-	-	-	-	-	-	-	-
<b>Equity attributable to owners of the parent</b>		<b>638,943</b>	<b>(93,351)</b>	<b>545,592</b>	<b>625,211</b>	<b>(117,111)</b>	<b>508,100</b>	<b>643,837</b>	<b>(134,443)</b>	<b>509,394</b>
<i>Total equity</i>		638,943	(93,351)	545,592	625,211	(117,111)	508,100	643,837	(134,443)	509,394
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>658,695</b>	<b>(93,351)</b>	<b>565,344</b>	<b>642,189</b>	<b>(117,111)</b>	<b>525,078</b>	<b>661,892</b>	<b>(134,443)</b>	<b>527,449</b>

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS (continued)

### Reconciliation of statement of loss:

	Note	3 months ended March 31, 2010			Year ended December 31, 2010		
		Canadian GAAP	IFRS adjustments	IFRS	Canadian GAAP	IFRS adjustments	IFRS
<b>Expenses</b>							
Exploration and development		-	138	138	-	138	138
Corporate, general and administrative		1,725	-	1,725	7,490	-	7,490
Share based compensation	22 b)	521	441	962	6,469	1,014	7,483
Project financing costs		112	-	112	(31)	-	(31)
Depreciation		58	-	58	210	-	210
		2,416	579	2,995	14,138	1,014	15,290
Interest		(121)	-	(121)	(448)	-	(448)
Foreign exchange loss/(gain)		13,143	-	13,143	15,902	-	15,902
<b>Loss/(income) before income tax</b>		<b>15,438</b>	<b>579</b>	<b>16,017</b>	<b>29,592</b>	<b>1,014</b>	<b>30,744</b>
Income tax expense		2	-	2	(6,925)	-	(6,925)
<b>LOSS FOR THE PERIOD/YEAR</b>		<b>15,440</b>	<b>579</b>	<b>16,019</b>	<b>22,667</b>	<b>1,014</b>	<b>23,819</b>

Loss per share (basic and diluted): \$ 0.046 \$ - \$ 0.047 \$ 0.065 \$ - \$ 0.068

### Reconciliation of statement of comprehensive loss:

	Note	3 months ended March 31, 2010			Year ended December 31, 2010		
		Canadian GAAP	IFRS adjustments	IFRS	Canadian GAAP	IFRS adjustments	IFRS
<b>LOSS FOR THE PERIOD / YEAR</b>		<b>15,440</b>	<b>579</b>	<b>16,019</b>	<b>22,667</b>	<b>1,014</b>	<b>23,819</b>
<i>Other comprehensive income</i>							
Currency translation adjustment		-	24,612	24,612	-	44,876	44,876
<b>COMPREHENSIVE LOSS FOR THE PERIOD / YEAR</b>		<b>15,440</b>	<b>25,191</b>	<b>40,631</b>	<b>22,667</b>	<b>45,890</b>	<b>68,695</b>

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS (continued)

### Reconciliation of equity at the transition to IFRS:

Note	At the transition date January 1, 2010	For the three months ended March 31, 2010	For the year ended December 31, 2010
<b>Equity previously reported under Canadian GAAP</b>	638,942	625,211	643,837
<i>Items separately disclosed in the shareholder's equity</i>			
Adjustment to expense			
- non-controlling interest, previously disclosed in accumulated deficit	-	-	
- exploration and evaluation assets capitalized before the feasibility study was completed	22 c) (27,300)	(138)	-
- foreign currency translation differences arising from the translation of transactions recorded in a different currency than the functional currency	22 a) (70,992)	(123,346)	(144,320)
- adjustment to amortization of share options using accelerated method and applying forfeiture rate	22 b) 4,942	6,373	9,877
<b>Equity reported under IFRS</b>	545,592	508,100	509,394

### Reconciliation of loss and comprehensive loss for the period/year:

	For the three months ended March 31, 2010	For the year ended December 31, 2010
<b>Loss for the period / year under Canadian GAAP</b>	15,440	22,667
Adjustment to expense		
- exploration costs capitalized before the feasibility study was completed	22 c) 138	138
- adjustment to amortization of share options using accelerated method and applying forfeiture rate	22 b) 441	1,014
<b>Loss for the period/year attributable to equity holders reported under IFRS</b>	16,019	23,819

### Restatement of cash flows from Canadian GAAP to IFRS

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Group. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS (continued)

### Primary adjustments

In adopting IFRS, the primary adjustments to the consolidated Canadian GAAP financial statements as translated into Canadian dollars, and reclassified to conform to IFRS balance sheet formats, are set out as follows:

#### a) IAS 21 - Effect of changes in foreign exchange rates

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and should be measured using the currency of the primary economic environment in which the entity operates. As set out in Note 4, the functional currency of the corporate office is CAD and the functional currency of the Romanian subsidiary is RON. The consolidated financial statements are presented in CAD which is the Group's presentation currency.

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

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

IFRS 1 allows first time adopters to deem that the cumulative translation differences for all foreign subsidiaries to be zero at the date of transition to IFRS and, further, that any gain or loss on a subsequent disposal of a foreign subsidiary would exclude any translation differences that arose before the date of transition to IFRS but would include all subsequent translation differences.

Upon adoption of IFRS, all resulting foreign exchange differences from translation of the entities' assets, liabilities and income statement items are expected to be recognized in Other Comprehensive Income as a separate component of Equity. The impact at the transition date under IAS 21 is \$71.0 million. However, the Group elected to eliminate its currency translation adjustment balance in the Statement of Financial Position, as permitted for first-time IFRS adopters. The effect of this elimination was an increase in the deficit of \$71.0 million. In addition a further adjustment of \$24.6 million was recognized in Other Comprehensive Income as a separate component of Equity in respect of the three month period ended March 31, 2010.

#### b) IFRS 2 – Share-based payments

The accounting policy under IFRS 2 has been retrospectively applied to all equity instruments granted after November 7, 2002 that have not vested at January 1, 2010.

IFRS 2 requires share-based payments to be fair valued at grant date and charged through the Statement of Loss over the vesting period using the accelerated method of vesting. The straight line method of amortization, used by the Company in accordance with Canadian GAAP, is disallowed. The expense of performance options under Canadian GAAP is typically recognized when the performance criteria are met and is often called "cliff vesting" where all of the expense is recognized upon satisfaction of the performance criteria. However, under IFRS the expense associated with performance options must be spread over the expected vesting period of the performance option.

# Notes to Consolidated Financial Statements

For the three-month period ended March 31, 2011 and year ended December 31, 2010  
(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

## 22. Transition to IFRS (continued)

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

As a result, the fair value of the grants measured using Black-Scholes model is adjusted by the estimated number of awards that are expected to vest as a result of non-market conditions and is expensed over the vesting period using an accelerated method of amortization.

At the Transition Date, the impact of IFRS 2 adoption is \$4.9 million which has been reflected in Contributed Surplus, Accumulated Deficit and Mineral Properties. In addition further adjustments of \$1.4 million and \$4.9 million were made for the three-month period ended March 31, 2010 and year ended December 31, 2010, respectively.

### c) IFRS 6 - Exploration for and evaluation of mineral resources

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

On transition to IFRS \$27.2 million of capitalized exploration costs existed at January 1, 2010 and these costs were capitalized before the feasibility studies for Rosia Montana, Bucium and Baisoara were completed and have been de-recognized and expensed in Accumulated Deficit. \$138,000 of exploration costs were expensed in relation to the Bucium and Baisoara properties in the three-month period ended March 31, 2010.