# Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") provides a commentary to enable a reader to assess material changes in the financial condition and results of operations of Gabriel Resources Ltd. ("Gabriel") as at and for the three-month and six-month periods ended June 30, 2012 and 2011.*

*The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto of the Company as at and for the three-month and six-month periods ended June 30, 2012 and 2011 ("Statements"). These Statements have been prepared in condensed format in accordance with International Financial Reporting Standards IFRS as applicable to the preparation of interim financial statements, including International Accounting Standard IAS 34 ('Interim Financial Reporting'). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2011 which have been prepared in accordance with IFRS. All amounts included in the MD&A are in Canadian dollars ("$"), unless otherwise specified. This report is dated as of August 2, 2012 and the Company's public filings, including its most recent Annual Information Form, can be reviewed on the SEDAR website (www.sedar.com).*

## Overview

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

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

## Key Issues

*Political Situation*

The political landscape of Romania has shifted significantly since the start of 2012. The current Prime Minister, Mr. Victor Ponta, is the third to have served Romania in this role in the last six months (a fourth served as interim PM for less than 24 hours). With national elections expected to be scheduled for November 2012, there is a possibility of further governmental change. Mr. Ponta, President of the Social Democrat Party ("PSD"), leads a USL coalition government, predominantly formed by the PSD and the Liberal Party ("PNL"), which was formally sworn in by Parliament on May 7, 2012. The USL coalition was previously in opposition to the then ruling coalition, an alliance formed primarily between the Liberal Democratic Party ("PDL") and a Hungarian-ethnic party alliance ("UDMR").

The USL came to power following a successful vote of no confidence against the PDL/UDMR coalition government (led by then Prime Minister Mr. Mihai Razvan Ungureanu) on April 27, 2012 resulting in its demise after only eleven weeks in power. This result led to the appointment of Mr. Ponta as Prime Minister and the second major overhaul of the Romanian Government in two months.

Local elections were held on June 10, 2012 and, with a turnout of approximately 58%, resulted in the USL gaining approximately 50% of the vote and securing 36 out of the total of 41 County Council Presidents. Locally, the Mayor of Rosia Montana was re-elected for a further four year term, with support for the Project being a key pillar of his election campaign. The continued strong local and regional support for the Project is welcomed by the Company.

In recent weeks, Mr. Ponta and the President of Romania, Mr. Traian Basescu, who was elected President for a second five-year term in 2009, have been locked in a political power struggle. This culminated in the USL initiating proceedings to remove the President from office and, on July 6, 2012, Romania's Parliament voting to suspend the President pending a public referendum on the President's removal. The referendum, which was held on July 29, 2012, reportedly fell short of the 50% turnout threshold required for the result to be binding, despite a majority voting for the President's dismissal. The result of the referendum has yet to be approved by the Constitutional Court of Romania.

Since the investiture of the Ponta Government, internal domestic matters have limited significantly the level of Government engagement on the Project. Together with the impeachment proceedings, which relied on a change of law by the Romanian Parliament, other political actions undertaken by the new Government in the last two months have been noted publicly as a cause for concern inside and outside of Romania with pronouncements from the EU and European governments.

In its report on progress in Romania under the Cooperation and Verification Mechanism, issued on July 18, 2012 ("EU Report"), the EU Commission noted that such actions had raised serious concerns with regard to the rule of law and the independence of the judiciary in Romania, as well as concerns about the irreversibility and sustainability of reforms in the country over the last five years since its accession to the EU. The EU Report laid out some 28 recommendations for action, of which 10 were in respect of the immediate actions to remediate the present situation with respect to the rule of law and independence of the judiciary, which the new Government has undertaken to implement.

The Parliament is currently in summer recess until the end of August, following which there are expected to be national elections in November.

### *Political Impact on the Project*

The Project remains a high profile issue in Romania, with wide coverage in television debates, on the internet and in print media, as well as being the subject of comment from leaders of all major political parties. With the uncertainty of recent political change and a Government focused on internal domestic (as well as EU related) matters, the Company has scaled back considerably its media communication efforts.

The Company remains committed to dialogue with the new Government to facilitate a full understanding of the employment and economic advantages the Project will bring to Romania. There are multiple benefits that the Project will bring to an area that is facing extreme poverty whilst continuing to suffer a growing legacy of environmental damage caused by past unregulated mining activities polluting nearby rivers and causing decay to its cultural heritage.

The permitting progress of the Project relies heavily on the Government approval of the environmental permit ("EP") and the issuance, in accordance with due process and Romanian law, of various permits and approvals at local, county and federal levels of Government. Furthermore, in its latest combined political programme, the new Government has stated it will re-analyze the Project in a transparent manner and based on an open and democratic dialogue, so that the decisions are in accordance with the national interest, environmental protection and European legislation. Key new ministers with respect to the permitting decisions associated with the Project include Ms. Rovana Plumb as Minister of Environment, Mr. Puiu Hasotti as Minister of Culture, and Mr. Daniel Chitoiu as Minister of Economy. In recent announcements the Prime Minister and others in Government are reported to be keen to ensure that the Project benefits from the existence of environmental protection guarantees, de-classification of the mining licence as a state secret so it can be made public, a renegotiation of the Romanian State's participation and a decoupling of the Project from political lobbying. The Company is looking forward to having an open dialogue with the new Government to understand and discuss any and all issues and concerns in relation to the Project.

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

### *Project Ownership and Royalty*

On December 27, 2011, the former Government publicized an intention to increase the royalty rate for all mineral resources regulated by the Mining Law in Romania, and specifically that the royalty payable to the Romanian state for precious metals production would be increased from 4% to 8%. The Government later confirmed on March 30, 2012 that there has been no adoption of any legislative change in royalty rate for mineral resources but that the royalty regime should be reviewed further in the short-term.

On July 31, 2012 it was reported that Mr. Ponta had requested a resumption of the legislative approval process of proposed amendments to the royalty rates applicable to certain resources including precious metals.

Gabriel and RMGC had discussions with a number of ministries of the previous Government in respect of questions raised on the potential for a revised ownership interest in the Project, the current royalty rates for gold and silver production and the route to successful permitting of the Project. These discussions encompassed a wide range of issues relevant to the interests of all stakeholders in a project to build a world class and modern mine, including the need for investors to see a stable fiscal regime in the context of the overall expected returns from the Project to Romania as well as those to Gabriel shareholders. There have been no discussions with the new Government in this regard. The Company will provide further updates as and when there is material progress.

## *Permitting & Environmental*

### Permitting

Although the EP is the most important approval for the Project, and whilst significant progress has been made, including the issuance of archaeological discharge certificates ("ADC") for three of the open-pits, there are a large number of rights, licenses, permits, approvals and authorizations from the local, county and federal levels of Government required to advance the Project to construction. These permits include zonal urbanism plans for the industrial and protected areas, forestry/agriculture land use change permits, as well as other permits and approvals that follow the issuance of the EP. The application for, and issuance of, each material license, permit, approval and authorization is governed by a separate set of laws, rules and regulations. To the extent these additional permits and approvals for the development, construction and operation of the Project are not dependent on issue of the EP, or acquisition of surface rights, the processes for each of these are proceeding in parallel with the review of the Project's Environmental Impact Assessment ("EIA").

There is no precedent or regulatory timeline in Romania for permitting a mining operation on the scale of the Project, however in the absence of any other extraordinary events, legal or otherwise, the Company expects the processes currently in place 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 EP is issued by the Government.

### Environmental

On September 17, 2010 the Ministry of Environment ("MoE") recommenced the Technical Analysis Committee ("TAC") review of the EIA. This process remains ongoing, although the Company is waiting to engage with the new Government in order to take the TAC review forward.

The Project has been designated as a project requiring Government approval. The TAC is the most substantive level of review provided by the Government and is a required procedural step prior to the Government providing its final decision on whether to approve the EP for the Project. Four TAC meetings, attended by RMGC, have been held since September 2010.

A majority of members of the TAC visited Rosia Montana in October 2011 to understand better the site of the Project and its potential impact on the environment. This was followed by the most recent TAC meeting on November 29, 2011 where the analysis of all EIA chapters was completed.

Until recently, it was the Company's understanding that the TAC had concluded that all technical aspects have been clarified to its satisfaction, although the Company has been awaiting formal feedback from the TAC as to whether further meetings or documentation will be requested. However, in recent months, public statements attributed to Government ministers have indicated additional considerations may delay or otherwise have a bearing on the TAC process, including:

- whilst the Company had the required decision from the local council of Alba Iulia for the diversion of a stream in the Corna valley which is under the Project footprint, the former Minister of Environment indicated that such diversion also required Government approval within a formal procedure for the Project to be made of 'public interest';

- the Ministry of Culture ("MoC") cannot give approval for the entire Project because an archeological discharge certificate has not yet been granted for the proposed open pit at Orlea, for which RMGC needs to conduct archeological research. The Company's understanding is that an archaeological discharge certificate for the Orlea deposit is not required prior to the commencement of operations as the Orlea deposit will not be mined until year 7 of the current mine plan. The Company will be seeking clarification from the new Minister of Culture;

- the chairman of the TAC resigned from his post at the MoE following the most recent change in Government and the Company is awaiting the appointment of a new TAC chairman; and

- implementation of the new EU waste management directive required a further industrial waste management plan to be provided. The Company believes it has complied with this requirement having already completed an update of its waste management plan. This plan has been reviewed by the National Agency for Mineral Resources and has been submitted for approval to the MoE. In this regard, the Company has recently received an additional information request from the MoE and is in the process of providing a response.

As a consequence of the recent political changes, the Company awaits further clarification from the new Government and the TAC as to the next steps in its review process. Gabriel remains unable to provide guidance on the time that it might take the TAC to vote on the EIA or to release its recommendation to the Government. Ultimately, the EP must be approved by a Cabinet decision of the Government prior to its issuance.

Urbanism Plans & Certificates

The Company's amended industrial zonal urbanism plan ("Industrial Area PUZ"), which designates an industrial zone under the footprint of the proposed new mine at Rosia Montana, is at an advanced stage, albeit there has been limited progress in recent months. Up to the end of 2011, RMGC had obtained 19 out of the total number of 22 endorsements necessary for the approval of the Industrial Area PUZ. However, as result of the ongoing delays to the permitting process, one of the 19 endorsements has expired. A replacement endorsement will be applied for in due course.

A further endorsement for the Industrial Area PUZ is approaching expiry in August 2012. The Company is awaiting a formal response to an extension request and in due course plans to submit the necessary documents to obtain a new endorsement. After obtaining all the necessary endorsements, the final approval for the Industrial Area PUZ will be given by the local councils of Rosia Montana, Abrud and Bucium.

In addition, the local council of Rosia Montana has advanced the process for the zonal urbanism plan for the Rosia Montana historical protected area ("Historical Area PUZ") and had obtained 10 out of the total of 13 endorsements necessary for its final approval. As per the Industrial Area PUZ, the equivalent endorsement has expired and the renewal plans are as stated above.

A 2011 amendment to the legislation concerning the approval of certain zonal urbanism plans has put the timing and the approval process of such plans in question. The Chamber of Deputies of the Romanian Parliament is currently reviewing the applicable legislation with a view to clarifying the approval process. If the relevant legislation is not amended or otherwise clarified, the process for the approval of the Company's zonal urbanism plans may be delayed further.

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

The validity of the existing General Urbanism Plans ("PUGs") for Rosia Montana and Abrud has recently been extended, pursuant to local council decisions, through to July 2014 in both cases. Furthermore, during Q2 2012, the local councils of Rosia Montana, Abrud and Bucium have undertaken preliminary steps to obtain new PUGs for the respective localities.

RMGC has recently obtained an extension to the validity of its urbanism certificate, UC-87, for a period until April 2013.

Dam Safety

On June 29, 2010, the Romanian National Dam Safety Commission ("CONSIB") approved the design of the Project's Corna and Cetate dams and operational safety permits were issued, both valid for two years. Following the submission by the Company of the necessary technical documents, during the CONSIB meeting of March 30, 2012, approval was given for the extension of the two permits for a further period of five years (subject to Project construction commencing within two years). Subsequently, in April 2012, the MoE ratified the extension by issuing new safety permits for these dams.

### *Litigation*

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

While a small number of these actions over many years have been successful, most have been, and continue to be proved to be, frivolous in the Romanian courts. RMGC recently achieved the 16th court victory for the Project from 17 legal challenges since 2010.

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

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

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

The latest urbanism certificate, UC-87, has also been, and remains, the subject of further legal challenge by NGOs seeking its annulment and suspension. To date, the Romanian courts have rejected all such challenges, although one such challenge, previously dismissed by a lower court, remains subject to an appeal which is scheduled for October 8, 2012.

Cases concluded during the second quarter of 2012 include:

- On April 17, 2012, the Cluj Tribunal rejected the NGOs' claim for the annulment of UC-87. This judgment can no longer be appealed and is thus irrevocable.

- On April 4, 2012, the Alba Iulia Court of Appeal ("AICA") upheld the ruling of a lower court that a 2009 decision of the local council of Rosia Montana ("LCD 1/2009") had been illegally adopted by the local council of Rosia Montana and was invalid (the "AICA Decision"). However, in a written judgment delivered on May 17, 2012, the AICA confirmed that the sole effect of their judgment related to the validity of LCD 1/2009 and that the 2002 urbanism plan approvals remained in full force and effect. Thus, and notwithstanding the AICA Decision, the Romanian courts have confirmed that the urbanism plans currently in place for the Project remain legal and valid and have been since their approval in 2002. Further background to the AICA Decision and the urbanism plan permitting process is provided in the Company's news releases of April 9, 2012 and May 17, 2012.

- A second legal challenge which also sought the suspension of LCD 1/2009 was irrevocably dismissed by the Cluj Tribunal on June 6, 2012 on the basis that the subject matter of the claim had been ruled upon by the AICA. A third case seeking both suspension and cancellation of LCD 1/2009 was initiated in the Bucharest Tribunal by two other NGOs. In October 2011, the Bucharest Tribunal, at RMGC's request, elected to suspend such action until such time as the above-mentioned case had been irrevocably settled by the AICA. The NGOs may request the continuance of the cancellation action in due course.

- On June 19, 2012 RMGC obtained a favorable ruling in the outstanding legal challenge originally commenced by RMGC in November 16, 2007 to compel the MoE to resume the EIA review. On July 1, 2009, RMGC's legal claim against the MoE was rejected by the

Bucharest Court of Appeal. RMGC appealed against this decision before the High Court of Cassation and Justice, the supreme court of Romania, which quashed the prior decision of the Bucharest Court of Appeal on the basis that it had incorrectly admitted a plea of res judicata raised by the MoE (by reference to a lower court decision which had suspended an urbanism certificate relating to the Project). The High Court of Cassation and Justice further ordered that the file should be returned to the Bucharest Court of Appeal to be reheard on its merits. The Company awaits the written ruling of the High Court of Cassation and Justice in order to determine its next steps in these legal proceedings. As part of the proceedings before the High Court of Cassation and Justice, RMGC sought to discontinue its related claim for monetary damages against the MoE and its former officials. RMGC awaits confirmation of the Court's and respondents' consent to the discontinuance of this claim.

Upcoming hearings in the third quarter of 2012 include:

- A claim seeking the cancellation of the Strategic Environmental Assessment endorsement ("SEA"), which was issued by the Regional Agency for Environmental Protection of Sibiu in March 2011, is scheduled to be heard on September 14, 2012. The SEA is a key endorsement in respect of the Industrial Area PUZ.

- A second case seeking the suspension of the SEA, initiated by an NGO through the Cluj Tribunal, is also scheduled to be heard on September 14, 2012.

- On September 10, 2012 a request filed by three NGOs with the Cluj Tribunal for the cancellation of the ADC issued in July 2011 for the Carnic open-pit is scheduled to be heard. On January 20, 2012, the same three NGOs filed a claim in the Cluj Tribunal seeking the suspension of the ADC and the next hearing of that case is scheduled for September 14, 2012.

- An action initiated by an individual who is seeking a declaration of ownership title over 37 hectares of land under the footprint of the Project which is the subject of a concession agreement between the Abrud city administration and RMGC.

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

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

*Surface Rights*

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

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

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

*Resettlement Sites*

Construction of 125 homes in the Alba Iulia resettlement site, known as Recea, was completed in 2010 and all but one of these homes are now occupied by resettled families. In Q2 2011, the Company commenced the construction of a church and associated annexes at the Recea site. This church program achieved practical completion during Q2 2012, with internal finishing scheduled after an appropriate drying out period. During Q4 2011, the Company commenced the construction of six new houses at the Recea site, three of which were completed in Q2 2012. As part of the preparation for the future expansion of Recea, the completion of the civil works for the construction of a road and all necessary services infrastructure in the northern area of the site is forecast for mid-2012. A definitive review of the Recea expansion project is nearing completion.

A feasibility study is in progress for a further resettlement village to be built close to Rosia Montana for the remaining homeowners who have chosen, or may choose, to be resettled in the Rosia Montana area. The preparation of technical documents necessary for permitting the construction of the resettlement village has been initiated. Furthermore, preliminary zoning and concept studies for a new administrative center for the Rosia Montana commune (for administrative, institutional and social facilities) have been in progress since late 2011.

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

*Archaeology and Preservation of Cultural Heritage*

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

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

The Company has continued maintenance work on 160 houses located in the historical center of the village of Rosia Montana ("Protected Area"), with the aim of preventing their deterioration. During 2012, the restoration of several of these houses has been completed and these are now in use. Whilst these village houses are not designated as historic, the restoration will contribute to maintaining the character of the village. This is just one element of over US$100 million to be invested in local heritage and cultural aspects in and around Rosia Montana over all phases of the Project. This includes the establishment of a special commission, to include independent experts, which will monitor the work undertaken by RMGC.

The Company has initiated the design work to prioritize the complete restoration of more than 110 houses located within the Protected Area, which will bring these back into functional use. To date, the design work for the first phase of approximately 50 houses has been completed and the design work for the second phase of approximately 60 houses is at a final draft stage. The permitting process for obtaining construction and restoration authorizations continued in Q2 2012 and is now in its final stages. In addition, RMGC, in partnership with the local council of Rosia Montana, initiated the restoration of two iconic houses (the old school house and former town hall) in the Protected Area, along with the rehabilitation of a number of houses, which will be used for tourism initiatives. The restoration of the former town hall is scheduled for completion during Q3 2012. The remaining restoration works are planned to be scaled back until such time as the new Government moves ahead with Project permitting.

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

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

*Corporate and Social Responsibility (CSR)*

The Company takes pride in its commitment to achieving the highest levels of sustainability from workplace safety to community and environmental responsibility. It has a clear goal of attaining business performance through a dynamic process of continuous improvement in all aspects of its business and respecting all stakeholders.

The Company invests significant resources into its CSR programs, which in Romania is a multi-dimensional commitment managed by RMGC and covering employee training and safety, local communities, living traditions, direct and indirect social impacts, educational programs, environmental protection, community sponsorship and heritage aspects.

RMGC has been a long-standing sponsor to the annual 'Miner's Day & Mining Communities and Mining Traditions Festival', which in August 2011 involved 13 mining communities and more than 5,000 attendees. One of RMGC's core commitments is to develop local employment, local supply and a strategy for local economy diversification during the life of the Project and beyond, evidenced through:

- Local employment – RMGC currently employs approximately 500 people directly and numerous others indirectly, with some 85% hired from the local community. The Company is investing in training and skills assessments for the construction phase of the Project;
- Local supply - more than 600 local firms are suppliers / contractors to RMGC;
- Skills enhancement - RMGC has provided training to NGOs on tourism initiatives, fundraising for community development projects, on-line communications and food processing standards.

## Liquidity and Capital Resources

Cash, cash equivalents and short term investments at June 30, 2012 amounted to $100.6 million.

During the three months ended June 30, 2012 the Company issued 0.1 million common shares on the exercise of stock options for aggregate gross proceeds of approximately $0.5 million.

During the three months ended June 30, 2012, excluding the impact of realized foreign exchange translation differences and funds received by the Company through the exercise of stock options, the Company's average monthly net cash usage has been $5.9 million.

The Company is currently implementing the conclusions of a review into all areas of expenditure with a view to substantially reducing monthly costs until such time as the new Government moves ahead with Project permitting.

Following the issue of the EP, the level of monthly expenditure is expected to increase to $20 - $40 million for the period during which the Company moves to acquire the remaining surface rights for the Project, together with preparation for construction.

## Capital Cost

The estimated capital cost to complete the development of the Project taken from the March 2009 National Instrument 43-101 technical report, together with other interest, financing and corporate costs, was approximately US$1 billion.

The Company is in the process of updating the capital and operating cost estimates to complete the development of the Project and expects to provide a new NI 43-101 compliant technical report incorporating revised estimates in the coming months. The report has been commissioned to update the 2009 capital and operating cost estimates within the context of the existing Project parameters forming the basis of the EIA process, taking into account the current environment for commodity prices and the cost impact of increasing industry demand for critical capital equipment, labour and consumables.

## Project Timeline

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

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

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

## Outlook

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

- Reduce substantially monthly costs until such time as the new Government moves ahead with Project permitting;
- Continue efforts to increase the Romanian public and Government awareness of the Project benefits, economic and otherwise, and support for the permitting of the Project;
- Complete the revised estimate of capital and operating costs of developing the Project, such that a new NI 43-101 technical report can be issued;
- Obtain approval of the EP and all other required permits that allow construction activities to commence;
- 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:

| *in thousands of Canadian dollars, except per share amounts* | **2012 Q2** | **2012 Q1** | **2011 Q4** | **2011 Q3** |
|---|---|---|---|---|
| **Statement of Loss** | | | | |
| Loss | $ 2,683 | $ 2,567 | $ 8,411 | $ 3,640 |
| Loss per share - basic and diluted | 0.007 | 0.007 | 0.026 | 0.010 |
| **Statement of Financial Position** | | | | |
| Working capital | 90,454 | 106,575 | 120,725 | 148,588 |
| Total assets | 593,256 | 616,971 | 619,294 | 629,951 |
| **Statement of Cash Flows** | | | | |
| Investments in development and exploration including working capital changes | 13,152 | 14,902 | 14,771 | 16,892 |
| Cash flow from financing activities | 460 | 1,503 | 197 | 1,261 |

| *in thousands of Canadian dollars, except per share amounts* | **2011 Q2** | **2011 Q1** | **2010 Q4** | **2010 Q3** |
|---|---|---|---|---|
| **Statement of Loss / (Income)** | | | | |
| Loss / (income) | $ 3,534 | $ 1,102 | $ 9,487 | $ (13,107) |
| Loss / (income) per share - basic and diluted | 0.010 | 0.003 | 0.027 | (0.038) |
| **Statement of Financial Position** | | | | |
| Working capital | 166,543 | 102,720 | 109,753 | 122,874 |
| Total assets | 631,720 | 554,345 | 539,170 | 537,530 |
| **Statement of Cash Flows** | | | | |
| Investments in development and exploration including working capital changes | 13,021 | 8,595 | 8,706 | 8,882 |
| Cash flow from financing activities | 77,629 | 785 | 14,718 | - |

## Statement of Loss

| *in thousands of Canadian dollars, except per share amounts* | **3 months ended June 30** | | **6 months ended June 30** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Operating loss for the period | **$ 2,348** | $ 5,197 | **$ 5,301** | $ 9,374 |
| Loss for the period | **2,683** | 3,534 | **5,250** | 4,636 |
| Loss per share - basic and diluted | **0.007** | 0.010 | **0.014** | 0.013 |

Operating loss for the six month period ended June 30, 2012 decreased from the corresponding period in 2011. The decrease was mainly due to lower share-based compensation expense, reflecting permitting delays, which have extended the vesting periods of certain performance based option grants, and a credit to DSU expenses in the quarter as a result of the Company's lower share price period-on-period.

The loss for the six-month period ended June 30, 2012 is higher than the loss in the same period in 2011 as a result of an adverse variance period-on-period of $4.6 million in foreign currency exchange movements, reflecting the current economic and currency weakness in the Eurozone.

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 June 30** | | **6 months ended June 30** | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2012** | 2011 | **2012** | 2011 |
| Finance | **$ 308** | $ 200 | **$ 564** | $ 813 |
| External communications | **89** | 139 | **233** | 270 |
| Information technology | **15** | 15 | **28** | 61 |
| Legal | **215** | 153 | **430** | 307 |
| Payroll | **838** | 1,327 | **1,343** | 1,665 |
| Other | **691** | 263 | **904** | 587 |
| Corporate, general and administrative expense | **$ 2,156** | $ 2,097 | **$ 3,502** | $ 3,703 |

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

Finance costs for the three-month period ended June 30, 2012 relate mainly to insurance costs for the Group, audit and audit related services. Payroll costs for the six-month period ended June 30, 2012 decreased from the same period in 2011. The reduction relates mainly to temporary staff and redundancy costs paid in the prior year during the transition from the Canadian parent's offices to the management services operation in London, UK. The increase in Other costs for the three and six-month periods ended June 30, 2012 relates mainly to an IFRS lease inducement accrual required to evenly amortize the lease costs of the London, UK office over the duration of the lease.

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

## Stock Based Compensation

| *in thousands of Canadian dollars* | 3 months ended June 30 2012 | 3 months ended June 30 2011 | 6 months ended June 30 2012 | 6 months ended June 30 2011 |
|---|---|---|---|---|
| DSUs and RSU's - expensed | **$ (1,324)** | $ 258 | **$ (1,684)** | $ 481 |
| Stock option compensation - expensed | **1,445** | 2,798 | **3,350** | 5,097 |
| Stock based compensation - expensed | **$ 121** | $ 3,056 | **$ 1,666** | $ 5,578 |
| Stock option compensation - capitalized | **$ (680)** | $ 3,749 | **$ 1,759** | $ 7,691 |
| **DSU Compensation** | | | | |
| Number of DSUs issued | **18,634** | 53,096 | **28,150** | 87,034 |
| Average value ascribed to each DSU issued | **$ 1.61** | $ 8.03 | **$ 2.84** | $ 8.00 |
| **RSU Compensation** | | | | |
| Number of RSUs issued | **-** | - | **76,258** | - |
| Average value ascribed to each RSU issued | **$ -** | $ - | **$ 5.77** | $ - |

Initially valued at the five-day weighted average market price of the Company's shares at date of issue, DSUs and RSU's are revalued each period end based on the closing share price at the period end. The effect on the valuation of DSU's and RSU's of the period-on-period change in share price is charged to the Statement of Loss or capitalized for share units granted to personnel working on development projects. At June 30, 2012 the Company's share price was $1.55, compared to $4.69 at March 31, 2012 and $6.28 at December 31, 2011, giving rise to the reversal of expense for the three and six-month periods.

DSU's issued during the six-month period ended June 30, 2012 were to certain directors, at their election, in lieu of their quarterly directors fees. RSU's were issued during the three-month period ended March 31, 2012 to the CEO, CFO and CCO as a component of their 2011 compensation.

The estimated fair value of stock options is amortized over the period 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 may result in the full vesting of the options, the remaining fair value, if any, is either expensed immediately or over the remaining vesting period, as appropriate. The expected performance dates are periodically reviewed and the expensing adjusted accordingly. The fair value of stock options granted to personnel working on development projects is capitalized over the vesting period.

The reduction of stock option compensation expensed, and reversal of stock option compensation capitalized during the three month period ended June 30, 2012 is as a result of a review of expected attainment of performance conditions for performance based options to align with current political and Project permitting circumstances.

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Stock option compensation** | | | | |
| Number of stock options granted | **725,000** | 775,000 | **2,893,333** | 1,775,000 |
| Average value ascribed to each regular vesting option granted | **$ 1.92** | $ 6.69 | **$ 4.81** | $ 7.04 |
| Options granted to corporate employees, consultants, officers, and directors | **725,000** | 650,000 | **1,758,333** | 1,650,000 |
| Options granted to development project employees and consultants | **-** | 125,000 | **1,135,000** | 125,000 |

During the six–month period ended June 30, 2012 all of the granted stock options vest over a three-year period.

## Interest Income

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2012** | 2011 | **2012** | 2011 |
| Interest income | **$ 311** | $ 477 | **$ 536** | $ 603 |

Lower interest income in the six-month period ended June 30, 2012 compared to the same period in 2011 is largely the result of lower holdings of cash and cash equivalents and short term investment balances.

As at June 30, 2012 approximately 70% of the Company's cash and cash equivalents were invested in Canadian government guaranteed instruments with 28% held as cash deposits with major Canadian banks and the remaining 2% held in major UK or Romanian banks.

## Foreign Exchange

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2012** | 2011 | **2012** | 2011 |
| Foreign exchange loss - realized | **$ -** | $ (30) | **$ -** | $ (167) |
| Foreign exchange (loss) / gain - unrealized | **(646)** | 1,216 | **(485)** | 4,302 |
| Total foreign exchange (loss) /gain | **$ (646)** | $ 1,186 | **$ (485)** | $ 4,135 |

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

In light of Euro instability, the Company has elected to reduce its Euro exposure. At June 30, 2012, Euro holdings represent 9% of cash and cash equivalents (March 31, 2012: 23%; June 30, 2011: 46%). The foreign exchange loss in the three-month period to June 30, 2012 was due to Euro weakness against the Canadian Dollar, reversing gains in the first quarter.

The Company expects to report reduced foreign currency gains and losses as it continues to reduce exposure to non-Canadian Dollar currencies.

## Taxes

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

## Investing Activities

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

The recent changes in Government in Romania, and consequential delays in Project permitting, have necessitated expenditure reductions to preserve capital in the short term. This strategy has generated cost savings in the three-month period ended June 30, 2012 compared to the three-month period ended March 31, 2012 and, in the absence of progress on Project permitting, the Company expects this trend to continue for the remainder of 2012.

### *Mineral Properties*

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

Listed below is a summary of Project expenditures for the three and six-month periods ended June 30, 2012 and 2011.

| | | **3 months ended June 30** | | | | **6 months ended June 30** | | |
|---|---|---|---|---|---|---|---|---|
| *in thousands of Canadian dollars* | | **2012** | | 2011 | | **2012** | | 2011 |
| Finance and administration | **$** | **1,810** | $ | 1,735 | **$** | **3,293** | $ | 2,899 |
| External communications | | **3,472** | | 3,551 | | **8,096** | | 5,906 |
| Legal | | **1,410** | | 1,704 | | **2,845** | | 3,226 |
| Permitting | | **1,423** | | 1,279 | | **2,887** | | 1,959 |
| Community development | | **2,545** | | 1,631 | | **4,163** | | 3,061 |
| Project management and engineering | | **186** | | 2,266 | | **2,759** | | 4,155 |
| Exploration - Rosia Montana | | **474** | | 237 | | **995** | | 418 |
| Total exploration and development expenditures | **$** | **11,320** | $ | 12,403 | **$** | **25,038** | $ | 21,624 |
| | | | | | | | | |
| Capitalized depreciation and disposals | **$** | **94** | $ | 60 | **$** | **178** | $ | 133 |
| Capitalized stock based compensation | **$** | **(680)** | $ | 3,749 | **$** | **1,759** | $ | 7,691 |
| Decrease in resettlement liabilities | **$** | **(69)** | $ | 50 | **$** | **68** | $ | 179 |

The decrease in Project management and engineering costs during the three-month period ended June 30, 2012 is largely due to the reversal of capitalized stock based compensation costs resulting from the review of expected vesting dates of performance based options.

The Company has continued with community development activities in line with its commitment to sustainable development, legal activities in defending the Company's position in numerous legal challenges and finance and administration activities in the continued administration of the Romanian operating company. Exploration costs have increased at Rosia Montana period-on-period due to additional geotechnical drilling as part of the ongoing process of the technical review of the Project. No additional work is planned on the Bucium property until the exploration license is converted into two exploitation licenses. The Government has indicated that a decision on the conversion of the Bucium exploration to exploitation licenses will not be made until after a decision on the EP for the Project is made.

### *Purchase of Capital Assets*

| | | **3 months ended June 30** | | | **6 months ended June 30** | | |
|---|---|---|---|---|---|---|---|
| *in thousands of Canadian dollars* | | **2012** | | 2011 | | **2012** | | 2011 |
| Resettlement site development costs | **$** | **2,934** | $ | 54 | **$** | **3,601** | $ | - |
| Investment in long-lead-time equipment | | **(355)** | | 249 | | **(355)** | | 510 |
| Other | | **73** | | 730 | | **492** | | 805 |
| Total investment in capital assets | **$** | **2,652** | $ | 1,033 | **$** | **3,738** | $ | 1,315 |
| Depreciation and disposal - expensed | **$** | **70** | $ | 44 | **$** | **132** | $ | 93 |
| Depreciation and disposal - capitalized to mineral properties | **$** | **94** | $ | 60 | **$** | **178** | $ | 133 |

The resettlement site development costs for the six-month period ended June 30, 2012 relate mainly to the construction of a church and additional houses at the Recea resettlement site, which commenced during 2011.

Credits to long-lead equipment represent settlement of warranty claims with manufacturers where equipment remediation costs had previously been capitalized. The final installments for the processing mills are expected to be made during the second half of 2012 ($0.1 million) at which point the grinding area systems and crushing facilities will be fully paid for and in the possession of the Company.

## Cash Flow Statement

### *Liquidity and Capital Resources*

The main sources of liquidity are the Company's cash balances, prospective exercise of stock options outstanding and the equity and debt markets. In the second quarter of 2011 the Company raised $75 million through the exercise by BSG of its 30 million share purchase warrants. There are no further warrants in issue at present.

As at June 30, 2012, cash, cash equivalents and short-term investments were $100.6 million compared to $176.3 million at June 30, 2011.

In light of current Euro instability, the Company is following a strategy of reducing Euro balances through operational expenditure in preference to US and Canadian dollar holdings. At June 30, 2012 Euro holdings accounted for 9% of total cash and cash equivalents.

The cost to complete the Project was estimated in the NI 43-101 technical report of March 2009 at US$876 million. Based on this estimate, the Company previously referenced a financing requirement for the development of the Project of approximately US$1 billion, comprising the capital costs together with other working capital, interest, financing and corporate costs. The

Company is in the process of updating the capital and operating cost estimates to complete the development of the Project and shortly expects to provide a new NI 43-101 compliant technical report incorporating revised estimates.

### *Working Capital*

As at June 30, 2012, the Company had working capital, calculated as total current assets less total current liabilities, of $90.5 million compared to $120.7 million as at December 31, 2011. The reduction in working capital during the six-month period ended June 30, 2012 relates to expenditures on the Project.

As at June 30, 2012, the Company had current liabilities of $14.1 million of which $4.5 million relates to resettlement obligations stemming from the acquisition of homes in the Project area.

### *Decrease in short-term investments and restricted cash*

The Company divested of the remainder of its short-term investments in the third quarter of 2011. Cash generated by the reduction of short-term investments in the six-month period ended June 30, 2011, of $55.7 million, was not repeated in the current six-month period.

## Related Party Transactions

The Company advanced loans in 2004 and 2009 in aggregate totaling US$41 million to non-controlling shareholders of RMGC to facilitate various statutory share capital increases in RMGC. The balance on the two loans outstanding at June 30, 2012 was US$40.4 million (June 30, 2011 US$40.4 million).

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

## Resettlement Liabilities

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 designated resettlement sites. For those residents who choose the resettlement option, the Company increases its mineral properties on the balance sheet as well as resettlement liabilities for the anticipated construction costs of the resettlement houses. As the construction takes place, the costs of newly built houses are capitalized as construction in progress. After the transfer of legal title of the property is completed, the Company reduces the amounts capitalized as construction in progress and at the same time reduces its resettlement liabilities. All resettlement associated costs will remain capitalized in mineral properties and amortized over the life of the mine once the Project moves into production.

At June 30, 2012 the Company had accrued resettlement liabilities totaling $4.5 million (December 31, 2011 – $4.6 million), which represents the cost of building the remaining new homes for the local residents and outstanding delay penalties.

In addition to the Recea resettlement site, construction of which was completed in 2010, the Company is conducting a feasibility study for a further resettlement village to be built close to Rosia Montana for the remaining 24 homeowners who have chosen to be resettled. As a result of the delay in delivery of additional resettlement 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 June 30, 2012 the Company has accrued $0.3 million (December 31, 2011 - $0.4 million) representing its total estimated delay penalty. During the six-month period ended June 30, 2012 the Company paid delay penalties of $76,000 (June 30, 2011 - $72,000).

## Contractual Obligations

The following is a summary of the Company's contractual commitments, as of June 30, 2012 including payments due for each of the next five years and thereafter:

| *in thousands of Canadian dollars* | **Total** | **2012** | **2013** | **2014** | **2015** | **2016** | **Thereafter** |
|---|---|---|---|---|---|---|---|
| Resettlement | 6,774 | 6,774 | - | - | - | - | - |
| Goods and services | 7,546 | 7,016 | 117 | 22 | 22 | 22 | 347 |
| Long lead time equipment | 119 | 119 | - | - | - | - | - |
| Rosia Montana exploitation license | 1,044 | 174 | 174 | 174 | 174 | 174 | 174 |
| Surface concession rights | 792 | 21 | 21 | 21 | 21 | 21 | 687 |
| Lease agreements | 1,529 | 266 | 364 | 287 | 272 | 272 | 68 |
| Total commitments | 17,804 | 14,370 | 676 | 504 | 489 | 489 | 1,276 |

In late 2011, RMGC contracted building services for the construction of a church and additional houses at Recea. The construction of the church was completed during the quarter, with the exception of certain internal finishing, and the houses are expected to be completed in 2012. The construction contracts are 'arms-length' agreements with unrelated third parties.

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 totaled $7.5 million at June 30, 2012 (December 31, 2011 – $11.0 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. In line with the Company's current cost reduction strategy, a number of such service agreements have been terminated during the quarter.

## Critical Accounting Estimates

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

### *Going Concern*

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

The base budget and forecast for 2012 for the Project includes only those expenditures and commitments to maintain the value of the Company's investment in mineral properties and to move the Project through EIA approval. Once the EIA is approved, the cost for the acquisition of remaining surface rights, completion of control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits could exceed the Company's current cash and cash equivalents holdings.

As at June 30, 2012 the Company had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

### *Mineral properties*

The Company has determined that the area covered by the Rosia Montana exploitation license contains economically recoverable reserves. The ultimate recoverability of the $436.2 million carrying value at June 30, 2012 plus related capital assets is dependent upon the Company's ability to obtain the necessary permits and financing to complete the development and commence profitable production – or alternatively, upon the Company's ability to dispose of its interest on an advantageous basis.

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

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.

### *Income taxes*

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

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

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

All tax assessments which have been received have been paid and provided for in the financial statements. Based on the advice of its professional tax advisors, the Company believes that the state tax authorities still have concerns relating to tax legislation and it is continuing to contest these positions through the courts.

## Financial instruments and other instruments

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

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

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

### *Credit risk*

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

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

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

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

### *Liquidity risk*

The Group has sufficient funds as at June 30, 2012 to settle all current and long-term liabilities.

### *Market risk*

#### *(a) Interest rate risk*

The Group has significant cash balances and no debt. With the Group maintaining a short-term investment horizon, typically less than 6 months, for its cash, cash equivalent, and short-term investment balances, it minimizes the risk of interest rate volatility as investments mature and are rolled over. Where yields on investments less than 90 days are not significantly lower than investments greater than 90 days but less than one year, the Group has elected to utilize the shorter term investments.

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

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

#### *(b) Foreign currency risk*

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

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

The Company has not entered into any derivatives hedging activities. The Company incurs foreign currency gains and losses on foreign denominated cash balances 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 cash balances.

*Sensitivity*

Based on Management's knowledge and experience of the financial markets, the Company believes, based on its balance of cash and cash equivalents as at June 30, 2012 the following movements are "reasonably possible" over a twelve-month period:

- Cash and cash equivalents are invested at either (i) floating interest rates or (ii) short-term fixed rates. A plus or minus 0.5% change in earned interest rates in both cases would affect net income from deposits by $0.5 million.
- The Company holds significant cash and cash equivalent balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of June 30, 2012 a plus or minus 1% change in foreign exchange rates would affect net income by $0.1 million.

## Risks

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

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

- Political and Economic Risks of Operating in Romania
- Permitting Process
- Acquisition of Surface Rights and Resettlement
- Mineral Tenure Rights
- Legal Proceedings
- Proposed Adverse Legislative Initiatives
- Tailings Incidents
- Closure of the State Run Mining Operations
- Compliance with Anti-Corruption Laws
- UNESCO World Heritage List
- Project Development
- Insurance and Uninsurable Risks
- Project Financing
- Global Economic Conditions
- Dilution
- Mineral Prices
- Currency Fluctuations
- Market Price Volatility
- Dependence on Management and Key Personnel
- Competition
- Enforcement of Civil Liabilities
- No History of Earnings or Dividends
- Mining Exploration and Development
- Mineral Reserve Estimates

- Environmental and other Regulatory Requirements
- Infrastructure
- Price Fluctuations of Consumed Commodities
- Accounting Policies and Internal Controls
- Conflict of Interest

## 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 annual consolidated financial statements prepared under IFRS were the audited consolidated financial statements for the year ended December 31, 2011, which included full disclosure of its new IFRS policies. The unaudited condensed consolidated financial statements for the three and six-month periods ended June 30, 2012 were prepared in accordance with IFRS as applicable to the preparation of interim financial statements, including International Accounting Standard 34 ('Interim Financial Reporting').

## 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 June 30, 2012 the Company's DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the 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 and operates effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

There is no limitation on scope of design as described in paragraph 5.3 of NI 52-109. There has been no change in the Company's ICFR that occurred during the three-month period ended June 30, 2012 which has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## Outstanding Share Data

The Company's fully diluted share capital as at August 2, 2012 was:

| | Outstanding |
|---|---|
| Common shares | 380,071,629 |
| Common stock options | 26,895,982 |
| Deferred share units - common shares | 564,662 |
| Restricted share units - common shares | 76,258 |
| **Fully diluted share capital** | **407,608,531** |

## Proven and Probable Mineral Reserves

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

| | | Grade *(g/t)* | | In Situ (Ounces) | |
|---|---|---|---|---|---|
| **Reserve Category** | **Tonnes** | **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 March 2009 NI 43-101 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 MD&A includes many such forward-looking statements and such statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements and its forward-looking statements are not guarantees of future performance. These risks, uncertainties and other factors include, but are not limited to changes in the worldwide price of precious metals; fluctuations in exchange rates; legislative, political or economic developments; operating or technical difficulties in connection with exploration, development or mining; environmental risks; 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.

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the period ended June 30, 2012

# Condensed Consolidated Statement of Financial Position

As at June 30, 2012, December 31, 2011 and June 30, 2011
*(Unaudited and expressed in thousands of Canadian dollars)*

| | Notes | **June 30 2012** | December 31 2011 | June 30 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 5 | **100,560** | 135,466 | 137,091 |
| Short-term investments | | **-** | - | 39,256 |
| Accounts receivable | | **2,722** | 5,439 | 2,860 |
| Prepaid expenses and supplies | | **1,242** | 1,349 | 958 |
| **Total current assets** | | **104,524** | 142,254 | 180,165 |
| **Non-current assets** | | | | |
| Restricted cash | 5 | **160** | 172 | 176 |
| Property, plant and equipment | | **52,329** | 51,486 | 51,256 |
| Mineral properties | 6 | **436,243** | 425,382 | 400,123 |
| **Total non-current assets** | | **488,732** | 477,040 | 451,555 |
| **TOTAL ASSETS** | | **593,256** | 619,294 | 631,720 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | | **9,529** | 16,915 | 9,115 |
| Resettlement liabilities | | **4,497** | 4,565 | 4,507 |
| Other liabilities | | **44** | 49 | - |
| **Total current liabilities** | | **14,070** | 21,529 | 13,622 |
| **Non-current liabilities** | | | | |
| Other liabilities | | **2,530** | 4,301 | 4,226 |
| **Total non-current liabilities** | | **2,530** | 4,301 | 4,226 |
| **TOTAL LIABILITIES** | | **16,600** | 25,830 | 17,848 |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | | **858,705** | 855,836 | 853,539 |
| Contributed surplus | | **47,174** | 42,971 | 38,025 |
| Currency translation adjustment | | **(72,914)** | (54,284) | (26,963) |
| Accumulated deficit | | **(256,309)** | (251,059) | (250,729) |
| **TOTAL EQUITY** | | **576,656** | 593,464 | 613,872 |
| **TOTAL EQUITY AND LIABILITIES** | | **593,256** | 619,294 | 631,720 |

*Nature of operations and going concern (Note 1)*

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

# Condensed Consolidated Statement of Loss

For the three and six-month periods ended June 30
(*Unaudited and expressed in thousands of Canadian dollars, except per share data)*

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Expenses** | | | | |
| Corporate, general and administrative | **2,157** | 2,097 | **3,503** | 3,703 |
| Share-based compensation | **121** | 3,056 | **1,666** | 5,578 |
| Depreciation | **70** | 44 | **132** | 93 |
| **Operating loss** | **2,348** | 5,197 | **5,301** | 9,374 |
| **Other income** | | | | |
| Interest received | **(311)** | (477) | **(536)** | (603) |
| Foreign exchange loss / (gain) | **646** | (1,186) | **485** | (4,135) |
| **Loss for the period attributable to owners of the parent** | **2,683** | 3,534 | **5,250** | 4,636 |
| **Basic loss per share** | **$ 0.007** | $ 0.010 | **$ 0.014** | $ 0.013 |
| **Diluted loss per share** | **$ 0.007** | $ 0.009 | **$ 0.013** | $ 0.011 |

# Condensed Consolidated Statement of Comprehensive Loss / (Income)

For the three and six-month periods ended June 30
(*Unaudited and expressed in thousands of Canadian dollars, except per share data)*

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Loss for the period** | **2,683** | 3,534 | **5,250** | 4,636 |
| *Other comprehensive loss / (income)* | | | | |
| Currency translation adjustment | **16,162** | 5,257 | **18,630** | (17,913) |
| **Comprehensive loss / (income) for the period attributable to owners of the parent** | **18,845** | 8,791 | **23,880** | (13,277) |

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

# Condensed Consolidated Statement of Changes in Shareholders' Equity

For the six-month periods ended June 30
*(Unaudited and expressed in thousands of Canadian dollars)*

| | **2012** | 2011 |
|---|---|---|
| **Common shares** | | |
| At January 1 | **855,836** | 761,943 |
| Shares issued on the exercise of share options | **1,963** | 3,414 |
| Transfer from contributed surplus - exercise of share options | **906** | 1,790 |
| Shares issued on exercise of warrants | **-** | 75,000 |
| Transfer from contributed surplus - exercise of warrants | **-** | 11,392 |
| At June 30 | **858,705** | 853,539 |
| | | |
| **Common share purchase warrants** | | |
| At January 1 | **-** | 11,393 |
| Warrants exercised | **-** | (11,393) |
| At June 30 | **-** | - |
| | | |
| **Contributed surplus** | | |
| At January 1 | **42,971** | 27,027 |
| Share-based compensation | **5,109** | 12,788 |
| Exercise of share options | **(906)** | (1,790) |
| At June 30 | **47,174** | 38,025 |
| | | |
| **Currency translation adjustment** | | |
| At January 1 | **(54,284)** | (44,876) |
| Currency translation adjustment | **(18,630)** | 17,913 |
| At June 30 | **(72,914)** | (26,963) |
| | | |
| **Accumulated deficit** | | |
| At January 1 | **(251,059)** | (246,093) |
| Loss for the period | **(5,250)** | (4,636) |
| At June 30 | **(256,309)** | (250,729) |
| | | |
| **Total shareholders' equity at June 30** | **576,656** | 613,872 |

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

# Condensed Consolidated Statement of Cash Flows

For the three and six-month periods ended June 30
*(Unaudited and expressed in thousands of Canadian dollars)*

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Cash flows used in operating activities** | | | | |
| Loss for the period | **(2,683)** | (3,534) | **(5,250)** | (4,636) |
| Items not affecting cash | | | | |
| Depreciation | **70** | 44 | **132** | 93 |
| Share-based compensation | **121** | 3,056 | **1,666** | 5,578 |
| Unrealized foreign exchange loss / (gain) | **646** | (1,216) | **485** | (4,301) |
| | **(1,846)** | (1,650) | **(2,967)** | (3,266) |
| Changes in operating accounts receivable and accounts payable | **(98)** | 1,523 | **(1,552)** | 724 |
| | **(1,944)** | (127) | **(4,519)** | (2,542) |
| **Cash flows (used in) / provided by investing activities** | | | | |
| Decrease in short-term investments and restricted cash | **8** | 31,980 | **12** | 55,658 |
| Exploration and development expenditures | **(11,320)** | (12,403) | **(25,038)** | (21,624) |
| Purchase of property, plant and equipment | **(2,652)** | (979) | **(3,738)** | (1,315) |
| Changes in investing accounts receivable and accounts payable | **(1,832)** | (618) | **(3,016)** | 8 |
| | **(15,796)** | 17,980 | **(31,780)** | 32,727 |
| **Cash flows provided by financing activities** | | | | |
| Proceeds from the exercise of share purchase warrants | **-** | 75,000 | **-** | 75,000 |
| Proceeds from the exercise of share options | **460** | 2,629 | **1,963** | 3,414 |
| | **460** | 77,629 | **1,963** | 78,414 |
| **(Decrease) / increase in cash and cash equivalents** | **(17,280)** | 95,482 | **(34,336)** | 108,599 |
| **Effect of foreign exchange on cash and cash equivalents** | **(678)** | 1,251 | **(570)** | 1,913 |
| **Cash and cash equivalents - beginning of period** | **118,518** | 40,358 | **135,466** | 26,579 |
| **Cash and cash equivalents - end of period** | **100,560** | 137,091 | **100,560** | 137,091 |

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

## 1. Nature of operations and going concern

Gabriel Resources Ltd. ("Gabriel" or the "Company") is a Canadian, Toronto Stock Exchange listed, resource company engaged in the exploration and development of mineral properties in Romania. The Company is presently in the permitting stage and preparing to develop its majority-owned Rosia Montana gold and silver project (the "Project"). Rosia Montana Gold Corporation ("RMGC") is the beneficial owner of the Project. The Company's registered address is Suite 200 – 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2. Since acquiring the Project's exploitation license, the Company has been focused on identifying and defining the size of the four ore bodies, engineering to design the size and scope of the Project, environmental assessment and permitting, rescue archaeology and surface rights acquisitions.

The underlying value of the Company and its subsidiary companies' (the "Group") mineral properties, and in particular the Project, 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 fiscal regime, changes in existing government regulations, for example, an increase in royalty rates applicable to the Project, a ban on the use of cyanide in mining, re-designation of the Project area as an archeological site of national importance, government regulations relating to mining which may withhold the receipt of required permits or impede the Group's ability to acquire the necessary surface rights, as well as currency fluctuations and local inflation. The suspension of the review of the 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 ability to continue as a going concern and may result in the impairment or loss of all or part of the Group's assets.

These condensed 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 June 30, 2012 the Group had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

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

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 condensed 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.

## 2. Basis of preparation

These condensed consolidated financial statements, for the three and six-month periods ended June 30, 2012, have been prepared in accordance with IFRS as applicable to the preparation of interim financial statements, including International Accounting Standard IAS 34 ('Interim Financial Reporting'). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

The condensed consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. These condensed consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

The Board of Directors approved these condensed consolidated financial statements on August 2, 2012.

## 3. Accounting policies

The accounting policies followed in these unaudited condensed consolidated financial statements are the same as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

## 4. Critical accounting estimates, risks and uncertainties

The Company performs a regular analysis of risk factors, which, if any should realize, would materially and adversely affect the results, financial position and/or market price of the Gabriel securities.

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income for the period. 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 (excluding going concern which is disclosed in Note 1):

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

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

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

## 5. Cash and cash equivalents

| As at | **June 30 2012** | December 31 2011 | June 30 2011 |
|---|---|---|---|
| Cash at bank and on hand | **30,464** | 85,506 | 82,820 |
| Short-term bank deposits | **70,096** | 49,960 | 54,271 |
| Cash and cash equivalents | **100,560** | 135,466 | 137,091 |
| Restricted cash | **160** | 172 | 176 |
| | **100,720** | 135,638 | 137,267 |

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates. Cash is deposited at reputable financial institutions of a high credit rating. The Group manages its domestic Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources at its corporate office and only transferring money to its Romanian subsidiary based on near term cash requirements, thereby mitigating exposure to domestic Romanian banks. At June 30, 2012 the Group held $1.6 million in Romanian banks (December 31, 2011 $2.9 million, June 30, 2011: $0.6 million).

Short-term bank deposits represent investments in government treasury bills, with maturities from the date of acquisition of less than 90 days. Investments with maturities from the date of acquisition of greater than 90 days are recorded in short-term investments (June 30, 2012: nil).

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

## 6. Mineral properties

| | **Rosia Montana** |
|---|---|
| **Balance - January 1, 2011** | 367,368 |
| Development costs - additions | 66,511 |
| Currency translation adjustment | (8,497) |
| **Balance - December 31, 2011** | 425,382 |
| Development costs - additions [1] | **26,907** |
| Currency translation adjustment | **(16,046)** |
| **Balance - June 30, 2012** | **436,243** |

[1] *Mineral property additions of $26.9 million (2011 - $66.5 million) is $1.9 million higher than the amount reported in the Condensed Consolidated Statements of Cash Flows of $25.0 million. The difference is attributed to a net adjustment of resettlement liabilities partially offset by non-cash charges for share based compensation and amortization.*

At June 30, 2012 the Group's principal asset was its 80.69% interest in the Project held indirectly through RMGC, which holds two mineral licenses in Romania, being the exploitation license for the Project and an expired exploration license for the Bucium property. The latter is in the process of being upgraded into two separate exploitation licenses. C.N.C.A.F Minvest S.A. Deva ("Minvest"), a Romanian state-owned mining company, holds the remaining 19.31% interest in RMGC. The Group holds a pre-emptive right to acquire the 19.31% non-controlling interest on any prospective sale by Minvest. The Company is required to fund 100% of all expenditures related to the exploration and development of these properties and holds a preferential right to recover all funding plus interest (other than on non-interest bearing loans) from future cash flows prior to the non-controlling shareholders receiving dividends.

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

## 7. Related party transactions

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

(a) The Company advanced loans in 2004 and 2009 in aggregate totaling US$41.0 million to non-controlling shareholders of RMGC to facilitate various statutory share capital increases in RMGC. The balance on the two loans outstanding at June 30, 2012 was US$40.4 million (December 31, 2011: US$ 40.4 million; June 30, 2011 US$40.4 million).

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

## 8. Common share options

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

| | **Number of options** | **Weighted average exercise price (dollars)** |
|---|---|---|
| **Balance - January 1, 2010** | 24,281 | 3.95 |
| Options granted | 1,975 | 7.44 |
| Options exercised | (1,431) | 3.41 |
| **Balance - December 31, 2011** | 24,825 | 4.26 |
| Options granted | **2,893** | **4.81** |
| Options forfeited / cancelled | **(365)** | **4.47** |
| Options exercised | **(457)** | **4.29** |
| **Balance - June 30, 2012** | **26,896** | **4.32** |

During the six-month period ended June 30, 2012 the Company granted 2.9 million options at an average grant price of $4.81, which vest over a three-year period (2011 – 2.0 million granted at an average grant price of $7.44, of which 1.5 million vest over a three-year period and the remainder vest based on achievement of certain milestones, the fair value of which is recognized and expensed over the estimated vesting period of the performance options). The fair value of the options granted during the period ended June 30, 2012 was determined using the Black-Scholes valuation model based on graded tranche level valuation, 5% pre-vesting forfeiture rates, 59.55% - 68.68% volatility (determined using the Company's three year share price history), an average risk-free rate of 1.20% (being the Canadian bond yield at grant date), expected annual dividends of 0% and expected life calculated using the midpoint between vesting and expiry.

The fair value of common share options granted to personnel working on development projects is capitalized over the vesting period. The fair value of share options expensed and capitalized during the three and six-month periods is as follows:

| | **3 months ended June 30** | | **6 months ended June 30** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Expensed | **1,445** | 2,798 | **3,350** | 5,097 |
| Capitalized | **(680)** | 3,749 | **1,759** | 7,691 |

## 9. Segmented information

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

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

The segmental report is as follows:

| | **Mining** | | **Corporate** | | **Total** | |
|---|---|---|---|---|---|---|
| **For the six-month period ended June 30,** | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| **Reportable items in the Consolidated Statements of Loss and Comprehensive Loss / (Income)** | | | | | | |
| Finance income | - | - | **(536)** | (603) | **(536)** | (603) |
| Amortization | - | - | **132** | 93 | **132** | 93 |
| Reportable segment loss | - | - | **5,250** | 4,636 | **5,250** | 4,636 |
| **As at June 30,** | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| **Reportable segment in Consolidated Statement of Financial Position** | | | | | | |
| Reportable segment current assets | **4,776** | 20,324 | **99,748** | 159,841 | **104,524** | 180,165 |
| Reportable segment non - current assets | **488,307** | 451,006 | **425** | 549 | **488,732** | 451,555 |
| Reportable segment liabilities | **(14,354)** | (13,722) | **(2,246)** | (4,126) | **(16,600)** | (17,848) |

## 10. Loss per share

| | 3 months ended June 30 | | 6 months ended June 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Loss for the period attributable to owners of the parent | **2,683** | 3,534 | **5,250** | 4,636 |
| Weighted-average number of common shares (000's) | | | | |
| Basic number of shares | **379,961** | 353,109 | **379,800** | 350,772 |
| Dilutive effect of: | | | | |
| Share options | **26,896** | 24,973 | **26,896** | 24,973 |
| Deferred and restricted share units | **641** | 285 | **641** | 285 |
| Common share purchase warrants | **-** | 25,714 | **-** | 27,833 |
| Total diluted number of shares | **407,498** | 404,081 | **407,337** | 403,863 |
| Basic loss per share | **$0.007** | $0.010 | **$0.014** | $0.013 |
| Diluted loss per share | **$0.007** | $0.009 | **$0.013** | $0.011 |

## 11. 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.

| | **Total** | **2012** | **2013** | **2014** | **2015** | **2016** | **Thereafter** |
|---|---|---|---|---|---|---|---|
| Resettlement | 6,774 | 6,774 | - | - | - | - | - |
| Goods and services | 7,546 | 7,016 | 117 | 22 | 22 | 22 | 347 |
| Long lead time equipment | 119 | 119 | - | - | - | - | - |
| Rosia Montana exploitation license | 1,044 | 174 | 174 | 174 | 174 | 174 | 174 |
| Surface concession rights | 792 | 21 | 21 | 21 | 21 | 21 | 687 |
| Lease agreements | 1,529 | 266 | 364 | 287 | 272 | 272 | 68 |
| Total commitments | 17,804 | 14,370 | 676 | 504 | 489 | 489 | 1,276 |

## 12. Seasonality

The operating activities of the Company are not subject to seasonal fluctuations.