# Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") provides a commentary to enable a reader to assess material changes in the financial condition and results of operations of Gabriel Resources Ltd. ("Gabriel" or the "Company") as at and for the years ended December 31, 2013 and 2012.*

*The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company as at and for the years ended December 31, 2013 and 2012 ("Statements"). These Statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"). All amounts included in the MD&A are in Canadian dollars ("$"), unless otherwise specified. This report is dated as of March 12, 2014, and the Company's public filings, including its most recent Annual Information Form, can be reviewed on the SEDAR website (www.sedar.com).*

## Overview

Gabriel is a Toronto Stock Exchange listed Canadian resource company engaged in the exploration and development of mineral properties in Romania. Gabriel is presently in the permitting stage and preparing to develop the Roșia Montană gold and silver project (the "Project"). Roșia Montană Gold Corporation ("RMGC") holds an exclusive exploitation licence for the Project. Through its 80.69% equity shareholding in RMGC, Gabriel has a beneficial majority ownership interest in the Project. As at December 31, 2013, Minvest Roșia Montană S.A. ("Minvest RM"), a Romanian state-owned mining company, owned the remaining 19.31% equity shareholding in RMGC. Gabriel holds a right of first refusal to acquire the minority interest in RMGC.

The Company's vision is to create value for all stakeholders and build a showcase mine for Romania from a safety-led, technically advanced and responsible approach to 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 land reclamation based on European Union ("EU") recognized best available techniques. Full compliance with EU regulations, which are amongst the most stringent in the world, will assist with the Company's goal of achieving a legacy of sustainable development while preserving the area's cultural heritage and removing severe historical pollution for the benefit of future generations.

## Key Issues

### *Political Situation*

Since the parliamentary elections held on December 9, 2012, the 'USL alliance' of the Social Democrat ("PSD"), National Liberal ("PNL"), the Conservative Party ("PC") and the National Union for the Progress of Romania ("UNPR") (together the "USL"), led by Social Democrat leader and Prime Minister Victor Ponta, held a two-thirds majority in parliament, a position that, until the USL collapsed in late February 2014, enabled it to control both the Chamber of Deputies and the Senate. The most recent changes in the Romanian Government ("Government") are discussed further below.

At the beginning of 2013, the Government stated that it would analyze the Project in a transparent manner, based on an open and democratic dialogue, so that decisions would be made in accordance with the national interest and in compliance with environmental protection and EU legislation. The Government also reiterated its view that progress on the permitting status of the Project would need to be aligned with an increase in the Romanian State's ("State") participation in the Project, through changes to the State's equity interest and the applicable royalty rate.

During 2013, the public profile of the Project rose significantly within the political and public arenas in Romania following its inclusion in a national strategic plan of the Government and also with the introduction of several legislative proposals related to, or impacting upon, the Project, as noted below, all of which were widely covered in television debates, on the internet and in print media.

*National Plan for Strategic Investment and Job Creation*

In the first half of 2013 the USL Government added definition to its strategic agenda for its four-year term, manifested in an announcement by Prime Minister Ponta on July 11, 2013 of a 'National Plan for Strategic Investment and Job Creation' ("Strategic Plan"). The Strategic Plan set out key targets for 2013, including, amongst other matters, the securing of investment commitments into Romania of €10 billion and the creation of over 50,000 jobs in five strategic investment fields. Seven projects within the Romanian mineral resources sector were identified by the Government in order to achieve those targets, of which one was the Project.

Throughout 2013, the Company, through RMGC, sought to engage with the Government and various ministries on the numerous matters pertaining to the Project including negotiations relating to a proposed increase of the State's equity interest in the Project and the royalty rate applicable to the Project's future gold and silver production, the Company's long-term commitments on environmental and cultural heritage initiatives, and the implementation of a defined route to successful permitting of the Project.

*Special Draft Law in respect of the Project*

In order to achieve certain of the objectives assumed by the Government through the Strategic Plan, the Government approved and issued a draft law "*on certain measures related to the exploitation of the gold-silver deposits from Roșia Montană and stimulation and facilitation of mining development in Romania*" ("Special Draft Law") on August 27, 2013, which was subsequently submitted to the Romanian Parliament for debate ("Parliamentary Review").

The three core objectives of the Special Draft Law, as announced by the Government, included:

(i) the approval of an agreement between the Company, RMGC and the State which provided for, amongst other matters, an increase in the State's equity participation in the Project from 19.31% to 25% and an increase in the mining royalty applicable to the Project from 4% to 6% of revenues;

(ii) the declaration of the Project as being a project of public utility and extraordinary public interest on the basis of, amongst other matters, the positive impact that it would generate in the event of its implementation; and

(iii) the improvement of the existing legislative framework concerning mining projects in order to facilitate the restoration of the mining industry in Romania and the realization of certain investments such as the Project.

The Government's announcement of the Special Draft Law and the associated Parliamentary Review gave rise to significant discourse within the political and public arenas in Romania. On September 17, 2013, Parliament established a Special Joint Committee of the Senate and of the Chamber of Deputies ("Special Committee") to analyse the Special Draft Law. The Special Committee was given an objective of (a) examining the Special Draft Law, as initiated by the Government together with any amendments submitted by the Government, deputies and senators, by no later than October 1, 2013; (b) preparing a report on the Special Draft Law for discussion in each chamber of the Parliament; and (c) facilitating a decision on the adoption of the Special Draft Law in a plenary session of each Chamber. The findings, conclusions and proposals of the Special Committee were due to be submitted to the plenary of the Senate by October 20, 2013, a deadline which was subsequently amended to November 10, 2013.

*Report of the Special Committee*

On November 11, 2013 the Special Committee published its report on the Special Draft Law ("Report"), and voted in favour of a recommendation for the rejection of the Special Draft Law by seventeen votes "for" and with two abstentions.

Notwithstanding the recommended rejection of the legislation initiated by the Government specific to Roşia Montană, the conclusions of the Report also recommended that a general legislative framework be drafted for the mining industry and gold and silver mining projects as a whole. The Report did not propose acceptance or rejection of the Project by the Parliament.

The Special Committee was primarily empowered by the Parliament to review the Special Draft Law and to issue a recommendation thereon for further debate in the plenary of the Parliament. However, given the interest of Romanian society in the Project, the Special Committee considered it necessary to undertake a wider debate and analysis of the Project and, accordingly, issued numerous and wide-ranging conclusions and recommendations in the Report, as reported in the Company's MD&A for the third quarter of 2013, including a request that various ministries and institutions involved in the assessment of the Project examine and, where appropriate, investigate certain issues identified during the hearings of the Special Committee.

A number of the recommendations presented by the Special Committee in response to concerns raised by interested parties during the Special Committee hearings, particularly relating to the preservation of cultural heritage, the risks of cyanide use, the utilization of alternative technologies for gold and silver recover and the safety of the tailings management facility, have already been addressed extensively by the competent authorities or institutions charged with assessing the Project, such as the Technical Assessment Committee of the Environment Ministry ("TAC").

In line with one recommendation of the Special Committee, on November 14, 2013, the Government issued an emergency ordinance to amend the Fiscal Code and, in particular, to provide for a new set of royalties applicable to mineral resources to be applied from 2014 upon either (i) the conclusion of a license or (ii) the issuance of a mining permit ("GEO 102/2013"). For noble metals, including gold, a royalty of 6% of the mining production value is to be applied under GEO 102/2013. Whilst the Senate has approved GEO 102/2013, it is now to be debated and voted on by the Chamber of Deputies, the decisional body, who could potentially modify the applicable royalty rates. Until such time as an addendum to the exploitation license for the Project ("RM License") is agreed by RMGC, it is the Company's understanding that the royalty rate of 4% established in the RM License will continue to apply to the Project.

*Rejection of the Special Draft Law*

On November 19, 2013 the Special Draft Law and Special Committee recommendation were debated in the plenary of the Senate. The Senate rejected the Special Draft Law adopting the Report drawn-up by the Special Commission.

The Report and Special Draft Law were subsequently transmitted to the Chamber of Deputies, as the decision-making body of Parliament charged with voting on its adoption. No vote has taken place to date although the Company fully expects the Special Draft law to be rejected by the Chamber of Deputies when it is presented.

*Further Attempts to Reform the Mining Law*

In September 2013, the Government commenced a separate legislative initiative ("Draft Amended Mining Law") in Parliament to amend the existing mining law, Law No. 85/2003, which was intended to facilitate the general development of all mining activities across Romania. This bill was neither specific to the Project nor incorporated any agreement between the Company, RMGC and the State.

It is understood that further analysis and amendment of the original terms of the Draft Amended Mining Law was undertaken by the Government in the following months, some of which arose from the Special Committee review and others arising from consultation with Transparency International Romania, a non-governmental organization that monitors and publicises corporate and political anti-corruption initiatives for international development.

On December 2, 2013, the Draft Amended Mining Law was debated and voted on by the plenary of the Senate where it failed to receive the requisite majority for its approval despite 85 of the 94 senators present voting in favour of its approval.

On December 10, 2013, the Draft Amended Mining Law was debated and voted on in the Chamber of Deputies where it again failed to garner the minimum number of votes required for its adoption - notwithstanding that a majority of the deputies present voted in favour of its adoption (160 votes in favour, 105 against, 22 abstentions).

*2014 Changes in Government*

Whilst, on the whole, 2013 saw a period of increased political stability in Romania, a renewed sense of political uncertainty has emerged in early 2014.

On February 25, 2014, the PNL adopted a resolution for its withdrawal from the Government, and also called for the resignation of Prime Minister Ponta and the legal dissolution of the USL. Accordingly, the PNL ministers, state secretaries and other political appointees resigned from the Government on February 26, 2014. This schism in the coalition was the culmination of a series of recent disputes between the USL coalition partners.

On March 3, 2014, it was announced that the PSD, PC and the UNPR, had reached a political agreement of the terms on which the Democratic Union of Hungarians in Romania ("UDMR"), a political alliance representing the ethnic Hungarians of Romania, was to join the Government. This agreement follows UDMR being in a position of political opposition for almost two years. Pursuant to such agreement, UDMR has been allocated certain ministerial and state secretarial offices, including, of particular relevance to the Project, the Ministries of Environment and Culture, positions it most recently held when in government in 2012.

On March 4, 2014, a vote in both chambers of the Romanian Parliament approved the composition of the new governing alliance of the PSD, PC, UNPR and UDMR, and the new Government was sworn in on March 5, 2014. The new Government will hold approximately 54% of the seats in the Senate and 62% of the seats in the Chamber of Deputies.

*Impact on the Project*

The political instability and ministerial changes recently effected, together with the failed legislative initiatives of 2013, have resulted in a lack of transparency in the foreseeable process for permitting the Project. Until such time as the Company can initiate additional, meaningful dialogue with the relevant ministries of the Government regarding the completion of environmental permitting and any proposals for further legislative processes through parliament which may affect the Project, Gabriel cannot provide any assurances or estimates of the likely time required to address and resolve matters such as those raised in the Report of the Special Committee or as to the impact of recent events upon the permitting progress of the Project.

In light of the repeated delays of the Government to properly address the assessment and permitting procedures for the Project, a thorough review of all activities associated with the development of the Project has been undertaken, with a goal of further reducing expenditures to ensure the Company remains financially strong, while maintaining, as far as possible, all existing licenses and permits in good standing. Following such review, in February 2014, RMGC initiated legal procedures for the retrenchment of a significant proportion of its employees. As of March 1, 2014, approximately 400 employees of RMGC, equivalent to approximately 80 per cent of the workforce, have been placed into ‘technical unemployment’ for a period of two months, a legal procedure whereby the employment contracts of such employees are temporarily suspended pending consultation with the local trade union and concerned authorities regarding retrenchment compensation. If there is no progress in the advancement of the Project, the affected employment contracts may be terminated as of May 1, 2014.

In the immediate future, 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 which will allow the Project to become a showcase for further investment into Romania and a sustainable legacy for the Romanian people.

*Environmental & Permitting*

Since its election victory at the end of 2012, the Government has maintained a view that progress on the permitting status of the Project needs to be aligned with an increase in the State's participation in the Project, through both ownership interest and royalty.

The Company's previous understanding was that only Government approval of the environmental permit ("EP") was pivotal to the permitting progress of the Project and furthermore, a key factor in the Government decision was the recommendation of the TAC, originally charged with the detailed assessment of the environmental impact and compliance of the Project. The Company remains confident that it will comply with, and in some aspects exceed, its obligations under EU and Romanian laws for environmental protection and guarantees.

To-date the outcome of the Parliamentary Review has been a rejection in the Senate and debate is yet to be concluded in the Chamber of Deputies. The Draft Amended Mining Law garnered an insufficient number of supporting votes to see the legislation carried for its adoption. The outlook regarding any re-submission to Parliament of legislation related to the amending the existing mining law is uncertain at this time and, as such, the Company remains unable to provide guidance on the timeframes to a final decision on environmental permitting of the Project from the TAC, Ministry of Environment ("MoE") or the Government.

Environmental

On September 17, 2010 the MoE recommenced the TAC review of the Environmental Impact Assessment ("EIA"). Encouraging progress was made during 2011. However, due to the volatile political situation in Romania throughout most of 2012, there was no formal progression with the TAC review during 2012.

During 2013, there were four meetings of the TAC with the last meeting held on July 26, 2013. It was the Company's understanding that, at the last meeting, the TAC had concluded that it had completed all technical review aspects of the EIA process and would meet once again only, for a final meeting, pursuant to which it would issue a recommendation on the issuance of the EP.

However, through the Government's decision of August 27, 2013 to approve and issue to Parliament for consideration the Special Draft Law (as described further above), the Government deferred the substantive, in-principle resolution affecting the environmental permitting of the Project until after the conclusion of the Parliamentary Review and the recommendation of the MoE. In addition, Rovana Plumb, the then Minister of Environment, reportedly stated on several occasions in 2013 that the MoE's recommendation to the Government on the issuance of the EP depended on the actions taken by Parliament with respect to the Project and, in particular, the Special Draft Law.

The Company now awaits formal feedback and guidance from the Government, the MoE and the TAC as to whether further meetings or documentation will be requested, particularly following the recommendations of the Special Committee. Gabriel remains unable to provide guidance on the related timeframes to a final decision from the TAC, the MoE or the Government with regard to the EP. Ultimately and in accordance with current legislation, the EP must be approved by a Cabinet decision of the Government prior to its issuance.

The Company has instigated a number of environmental initiatives in recent years to show how the implementation of the Project can assist with cleaning up legacy local environmental degradation from historical, unregulated mining activities. One such initiative is an acid rock drainage pilot test work program to clean mine water contaminated with high levels of heavy metals and total dissolved solids above EU and Romanian water standards. These tests have been conducted on water courses in Roşia Montană that are currently adversely affected by existing acid mine drainage from historic mining activities. The results have successfully shown that a full scale plant will clean up water discharges from the Project, along with much of the existing baseline contamination in the area, to levels fully compliant with all regulations in place (and even to potable water standards).

Since late 2012, the Company has been working with the requisite Government agency to use the pilot plant for additional testing of eight former state-run mine sites and has demonstrated that a full scale water treatment plant would be successful in cleaning up the contaminants to the required EU and Romanian standards at all sites tested. This is one example of how the Project, and the commitments made in the EIA, will produce long-term environmental benefits at local, regional and national levels.

Permitting Overview

Although the EP is the most important approval for the Project, 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 likely to proceed in parallel with the review of the 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 or unforeseen events, legal or otherwise, the Company expects the current processes for obtaining the majority of the outstanding surface rights acquisitions and other permits and approvals (including initial construction permits for the Project) to take approximately one year from the date the EP is issued.

Urbanism Plans

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

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

The Industrial Area PUZ is at an advanced stage, albeit there was limited progress in 2013. As at the date of this document, RMGC has obtained 19 out of the total number of 23 endorsements necessary for the approval of such PUZ. After obtaining all the necessary endorsements, the final approval for the Industrial Area PUZ will be required to be given by the local councils of Roșia Montană, Abrud and Bucium.

In addition, in 2009, the local council of Roşia Montană initiated the process for the zonal urbanism plan for the Roșia Montană historical protected area ("Historical Area PUZ") and, as at the date of this document, RMGC has obtained 10 out of the total of 13 endorsements necessary for its final approval.

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

There are a number of PUGs relevant to the Project including the PUG for the Roșia Montană commune (approved in 2002); the PUG for Abrud (approved in 2002); the PUG for Campeni (approved in 2009); and the PUG for Bucium (approved in 1999). According to Romanian legislation, PUGs are required to be updated every ten years by the respective local council.

During 2012 the validity of the existing PUGs for Roșia Montană and Abrud were extended, pursuant to local council decisions, through to July 2014.

The process for obtaining new PUGs for Roșia Montană, Abrud and Bucium is ongoing. During 2012, the local councils of Roșia Montană, Abrud and Bucium initiated the necessary steps for new PUGs for the respective localities, awarding the relevant design contracts for the PUGs. These activities continued during 2013 with the first form of the updated PUGs being completed and submitted for review to the local councils. The PUG for Bucium successfully passed through the public consultation phase during the third quarter of 2013, and is advancing through the strategic environmental assessment having fulfilled the first stage of this procedure in December 2013. The other PUGs are subject to ongoing formal approval processes, including public consultation.

### *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, the vast majority have been, and continue to be, proved to be without merit in the Romanian courts.

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

The publicly stated objective of the NGOs in initiating and maintaining these legal challenges is to use the Romanian court system not only to delay as much as possible, but ultimately to 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. Legal actions relating to the same license, authorization, permit or approval are often initiated by the NGOs in several different regional court jurisdictions, and such legal objections 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 five separate urbanism certificates with respect to the Project (each of which were initially valid for a period of 24 months), the most recent being UC-47 which was issued on April 22, 2013 and replaced the former urbanism certificate held by RMGC, namely UC-87. All four of the urbanism certificates which preceded UC-47 were the subject of legal action by NGOs, and, on August 14, 2013, three NGOs initiated proceedings before the Cluj Tribunal seeking the cancellation of UC-47 (see further below).

For further details of the material legal actions related to the Project, see the section entitled "*Legal Challenges relating to the Project*" in Part IV of Gabriel's Annual Information Form dated March 12, 2014, a copy of which is filed on SEDAR at www.sedar.com. In addition, key developments in legal proceedings during previous quarters have been reported in the relevant MD&A for such periods.

The following section outlines key developments that have occurred in legal proceedings concerning the Project since the end of the third quarter of 2013 and certain upcoming court hearings in the first quarter of 2014:

- RMGC submitted several applications to the High Court of Cassation and Justice ("Supreme Court"), and the Cluj Court of Appeal, seeking the relocation of certain legal claims relating to the Project from the Cluj Tribunal to alternative forums. These applications were submitted on the grounds of the association of certain members of the judiciary of the Cluj Tribunal with opponents of the Project and that such Tribunal was an unsuitable forum for hearing such claims given the fervent and negative social and political environment in the Cluj area vis-à-vis the Project. Pursuant to these applications, each of the relevant claims have been relocated to alternative Tribunals, as described further below.

- On October 31, 2013 an action filed by three NGOs requesting the suspension of the Archaelogical Discharge Certificate ("ADC") for the Carnic open-pit was relocated from the Cluj Tribunal to the Suceava Tribunal. On 30 January 2014, the Suceava Tribunal admitted the request for the temporary suspension of such ADC. The ruling is not irrevocable and is the subject of an appeal by RMGC, which it currently anticipates will be heard by a Court of Appeal in the coming months.

- On November 5, 2013 a claim brought by the same three NGOs seeking the cancellation of the ADC for the Carnic open-pit was relocated from the Cluj Tribunal to the Buzau Tribunal, and the next hearing of that claim is scheduled for March 18, 2014.

- On October 25, 2013 a claim initiated by two NGOs seeking the suspension of the strategic environmental assessment ("SEA") endorsement for the Industrial Area PUZ was relocated from the Cluj Tribunal to the Bacau Tribuna. At a hearing on March 12, 2014, RMGC submitted a motion for the dismissal of the case, a decision on which is expected on March 14, 2014.

- On November 6, 2013 a claim initiated by two NGOs seeking the cancellation of the SEA was relocated from the Cluj Tribunal to the Covasna Tribunal, and the next hearing date for this claim has been scheduled for March 14, 2014.

- On February 14, 2014 a claim registered by three NGOs seeking the cancellation of UC-47 was relocated to the Bistrita Tribunal. The first hearing date of this claim before the Bistrita Tribunal has been scheduled for March 14, 2014.

- As previously reported, on April 1, 2013 the Bucharest Tribunal rejected a claim brought by an NGO which sought the disclosure of certain documents pertaining to the mining license. On October 2, 2013, the complainant NGO submitted an appeal against this decision to the Bucharest Court of Appeal and the first appeal hearing has been scheduled for April 25, 2014.

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 any claims will be resolved in favour of the Company, RMGC or the Project. The implications of a negative court ruling will only be known once such a decision is issued formally by the relevant Court and the position of the Government is assessed, and 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.

*Other Legal Proceedings*

On November 12, 2013, RMGC initiated a defamation suit against the former director general of the Romanian Institute of Geology (IGR), Mr. Ştefan Marincea, in response to the completely ungrounded accusations made by Mr. Marincea before the Special Committee concerning the falsification of certain maps relating to the Corna Valley basin. No hearing date has yet been scheduled for this claim.

In November 2013, RMGC was informed of an investigation by the Ploiesti Public Prosecutor's Office ("PPPO") into alleged tax evasion and money laundering on the part of the principals/key shareholder(s) of a group of companies including Kadok Interprest LLC ("Kadok Group"). The PPPO has extended its investigation of the Kadok Group to at least 100 other companies, including RMGC, that had entered into commercial business relationships with the Kadok Group. RMGC is challenging the legality of a restriction order on $0.3 million held in one of RMGC's Romanian bank accounts pending the outcome of the PPPO investigation. The restricted amount represents the value of the goods procured by RMGC from the Kadok Group during 2012, all of which were received and paid for in full by RMGC, including related sales tax. RMGC no longer has any business relationship with Kadok Group. RMGC is continuing to cooperate fully with the PPPO and provide evidence to the PPPO of its legitimate business dealings with the Kadok Group.

### *Surface Rights*

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.

Throughout 2013 RMGC continued to implement a comprehensive community relations program in Roșia Montană and to engage in Project-related discussions with past and current regional homeowners. 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 Roșia Montană and Abrud, as well as State-owned mining companies. Negotiations have been initiated with various institutions to acquire the institutional properties and this process is expected to be completed after issuance of the EP.

Ultimately, the Company's ability to obtain construction permits for the mine and related infrastructure 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, with additional community facilities and a church completed in 2012. All but one of these homes are now occupied by resettled families.

In late 2011, in preparation for the future expansion of Recea, the Company initiated certain civil works, including the construction of new homes and additional services / utilities infrastructure; the works were substantially completed during 2012. A definitive review of the Recea expansion project will recommence following issuance of the EP.

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

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

*Archaeology and Preservation of Cultural Heritage*

An archaeological review of the historical mining activity at Roșia Montană 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 has conducted an extensive program of exploratory and preventative archaeology in order to ensure that valuable historical relics in the area are uncovered and preserved.

In July 2011, the Alba County Directorate for Culture and National Patrimony issued a new ADC to RMGC for the Carnic open-pit, which complemented those it already held for the Cetate and Jig open-pits. In January 2014, the Suceava Tribunal admitted a request for the temporary suspension of the ADC for the Carnic open pit. The ruling is not irrevocable and is the subject of an appeal by RMGC. The ADC remains valid while suspended.

The Company continues, at its own cost, with low level maintenance work on 160 houses identified in the historical center of the village of Roșia Montană ("Protected Area"), with the aim of preventing their deterioration. While these village houses are not designated as historic, the restoration will contribute to maintaining the character of the village. This is just one element of a significant amount of investment that the Company intends to apply to local heritage and cultural aspects in and around Roșia Montană over all phases of the Project.

Further to the maintenance work previously noted, the Company is reviewing the possibility to advance a project to complete restoration of more than 110 houses located within the Protected Area, which will bring these back into functional use. To date, the design work and permitting has been completed. The final stage of obtaining construction authorization remains outstanding.

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

In 2013 RMGC continued further work focusing on opening up previously unexplored old underground mining galleries that lie under the Protected Area, such as Catalina Monulesti, which has been successfully restored and has been opened to the public. Such areas could serve as a permanent museum, a visible testimony to the 2,000 year mining history at Roșia Montană and an accessible example of historic mining activities for parties with interests in the regional mining sector. The Company has already hosted over one thousand visitors to Catalina Monulesti, representing various stakeholder groups. Pending progress with permitting the Company continues to commit resources to preserve the important archeological areas that it has previously opened and restored. Presently, further work remains on hold.

*Corporate and Social Responsibility (CSR)*

Throughout 2013 Gabriel has demonstrated its commitment to achieving the highest levels of sustainability from workplace safety to community and environmental responsibility. The Company invested significant resources into its CSR programs, which in Romania is a multi-dimensional commitment managed by RMGC covering employee training and safety, local communities, living traditions, direct and indirect social impacts, educational programs, environmental protection, community sponsorship and heritage aspects.

## Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2013 amounted to $42.1 million.

During the year ended December 31, 2013 the Company issued 3.5 million common shares on the exercise of stock options for aggregate gross proceeds of approximately $5.4 million. Excluding the impact of funds received by the Company through the exercise of stock options, tax refunds and realized foreign exchange translation differences, the Company's average monthly net cash usage throughout 2013 was $3.9 million (2012: $4.9 million; 2011: $5.5 million).

During 2013 the Company continued with its underlying cost containment, following implementation of cost reduction measures initiated in mid-2012, to preserve capital until such time as the Government moves ahead with Project permitting. During Q4 2013, the Company increased communications and legal activity levels in response to the Parliamentary Review. These activities lead to increased expenditure in the latter part of 2013, with the cash impact also affecting expenditure in Q1 2014.

## Capital Cost

The estimated capital required to bring the Project into production and to a position of positive cash flow, including interest, financing and corporate costs, is approximately US$1.5 billion.

## Project Timeline

The Company is of the view that, once the EP for the Project is issued, in the absence of any other extraordinary or unforeseen events, legal or otherwise (including, but not limited to, further political instability or the impact of any new legislative framework mining in Romania), 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 with the financing plan for the construction of a mine at Roșia Montană.

Once construction of the mine begins, it is estimated to take approximately 30 months to complete, all 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:

- Engagement with the new Government;
- Continue to highlight the key economic, environmental, social and cultural benefits brought to Romania by the Project in order to highlight the merits of the Project to all stakeholders;
- Understand and progress to finalization and completion the measures required to obtain approval of the EP;
- Continue appropriate stewardship of cash resources; and
- Maximize shareholder value, while optimizing benefits of the Project to all stakeholders.

## Annual Summary

The annual summary is set out in the following table. The amounts are derived from the statements prepared under IFRS.

| *in thousands of Canadian dollars, except per share amounts* | **2013** | 2012 | 2011 |
|---|---|---|---|
| Operating loss | **$ 7,262** | $ 11,411 | $ 18,894 |
| Other (income) / expenses | **(585)** | 30 | (2,207) |
| Loss | **2,490** | 11,441 | 16,687 |
| Loss per share (basic and diluted) | **0.01** | 0.03 | 0.05 |
| Total assets | **658,308** | 602,686 | 619,294 |
| Non-current liabilities | **3,119** | 2,624 | 4,301 |
| Investment in exploration and development including working capital changes | **41,310** | 47,028 | 53,279 |
| Cash flows from financing activities | **$ 5,400** | $ 2,695 | $ 79,872 |

### *Results of operations*

Operating loss in 2013 was $4.1 million lower than 2012 due to lower stock-based compensation expense ($3.2 million lower year-on-year) and lower corporate, general and administrative costs ($0.9 million lower year-on-year) being principally lower payroll charges. Stock based compensation has reduced as a result of performance based options being re-measured to account for Project delays, and the effects of a lower share price.

Other (income) / expenses include interest income and foreign exchange gains and losses. Whilst lower interest was generated on reduced levels of cash and cash equivalents, the reduced holdings of foreign denominated currency resulted in the Company having significantly less exposure to currency fluctuations during the year and consequently modest foreign exchange impact.

The loss for 2013 was $9.0 million lower than the loss incurred in 2012, as a result of the factors listed above which reduced the operating loss, in conjunction with a $4.2 million Romanian tax recovery in 2013. The loss for 2012 was $5.3 million lower than the loss incurred in 2011, primarily due to the lower stock-based compensation expensing and reduced corporate, general and administrative costs.

### *Total assets*

Total assets increased $55.6 million year-on-year having reduced by $16.6 million from 2011 to 2012. The increase in 2013 relates mainly to positive currency translation adjustments of $50.8 million arising from the translation of foreign denominated assets and cash of $5.4 million received on the exercise of stock options. The reduction in 2012 related mainly to adverse currency translation adjustments of $11.5 million arising from the translation of foreign denominated assets and $6.7 million of cash utilized in operating activities, offset by cash received on the exercise of stock options.

*Non-current liabilities*

Non-current liabilities are comprised of an accrual for long service awards of $3.1 million (2012: $2.6 million; 2011: $1.9 million) for Romanian employees, pursuant to a collective bargaining agreement, which is renewable from time-to-time.

*Investment in exploration and development*

Expenditure was $5.7 million lower in 2013 compared to 2012 reflecting the continued cost containment and reduction measures initiated during 2012 to preserve capital until such time as the Government moves ahead with Project permitting. The Parliamentary Review process in late 2013 resulted in additional costs being incurred, principally on communications and legal matters. The generally lower expenditure in 2013 year-on-year consisted mainly of a reduction in permitting and Project management and engineering activities.

Expenditure was $6.3 million lower in 2012 compared to 2011 reflecting the strategic reduction of activity in the period leading up to the Romanian national elections held in December 2012, although certain additional costs were incurred in Q4 2012 on local referendum activities. Lower expenditure consisted mainly of a reduction in media and communication activities.

*Cash flows from financing activities*

$5.4 million was received from proceeds of the exercise of stock options (2012: $2.7 million; 2011: $4.9 million).

## Results of Operations

The results of operations are summarized in the following tables. The amounts are derived from the statements prepared under IFRS.

| *in thousands of Canadian dollars, except per share amounts* | **2013 Q4** | **2013 Q3** | **2013 Q2** | **2013 Q1** |
|---|---|---|---|---|
| **Statement of Loss / (Profit)** | | | | |
| Loss / (Profit) | $ 527 | $ (2,061) | $ 1,735 | $ 2,289 |
| Loss / (Profit) per share - basic and diluted | 0.00 | (0.01) | 0.01 | 0.01 |
| **Statement of Financial Position** | | | | |
| Working capital | 31,685 | 47,286 | 53,766 | 57,526 |
| Total assets | 658,308 | 635,419 | 620,683 | 595,676 |
| **Statement of Cash Flows** | | | | |
| Investments in development and exploration including working capital changes | 13,363 | 9,487 | 8,532 | 9,928 |
| Cash flow from financing activities | 52 | - | 5,346 | 2 |

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

## Statement of Loss

| | **3 months ended December 31** | | **12 months ended December 31** | |
|---|---|---|---|---|
| *in thousands of Canadian dollars, except per share amounts* | **2013** | 2012 | **2013** | 2012 |
| Operating loss for the period | **$ 845** | $ 2,536 | **$ 7,262** | $ 11,411 |
| Loss for the period | **527** | 2,530 | **2,490** | 11,441 |
| Loss per share - basic and diluted | **0.00** | 0.01 | **0.01** | 0.03 |

Operating loss for the three and twelve-month periods ended December 31, 2013 decreased from the corresponding periods in 2012. The decrease was mainly due to lower stock-based compensation expense, reflecting permitting delays which have extended the estimated vesting periods of certain performance based option grants, and a credit to DSU and RSU 'expenses' in the year as a result of the Company's lower share price period-on-period. Corporate, general and administrative costs are lower primarily as a result of lower payroll charges and the ongoing cost reduction strategy.

The loss for the three and twelve-month periods ended December 31, 2013 is lower than the loss in the same periods in 2012. A $4.2 million Romanian tax recovery and $0.9 million positive foreign currency variance account for the period-on-period improvement.

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

## Expenses

### *Corporate, General and Administrative*

| | **3 months ended December 31** | | **12 months ended December 31** | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2013** | 2012 | **2013** | 2012 |
| Finance | **$ 163** | $ 243 | **$ 614** | $ 845 |
| External communications | **102** | 41 | **$ 525** | 318 |
| Information technology | **18** | 27 | **$ 95** | 70 |
| Legal | **105** | 72 | **$ 273** | 528 |
| Payroll | **964** | 1,262 | **$ 2,614** | 3,326 |
| Other | **280** | (561) | **$ 955** | 919 |
| Corporate, general and administrative expense | **$ 1,632** | $ 1,084 | **$ 5,076** | $ 6,006 |

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

As noted, during 2012 the Company implemented a cost reduction strategy as a consequence of permitting delays to the Project. This strategy has been maintained in 2013 which has resulted in a general reduction in 2013 corporate activities and costs compared to the prior periods. Despite the Canadian dollar losing significant ground against the British pound during Q3 / Q4 2013, the average exchange rate for the year was not materially different from 2012, resulting in minimal variance period-on-period arising from foreign exchange variation.

External communications increased as a result of a pro-active increase in international media during the period of the Parliamentary Review in Q4 2013 to reinforce the benefits of the Project to all stakeholders. Legal costs were lower year-on-year due to 2012 being impacted by review and implementation of processes and procedures to ensure compliance with new legislative initiatives affecting the Company, including the UK Bribery Act. The reduction in payroll costs year-on-year is due to a significant reduction in cash bonus payments for 2013.

Negative 'Other' costs for the three-month period ended December 31, 2012 is as a result of certain year-end adjustments to prior quarter estimates in 2012.

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

## Stock Based Compensation

| | **3 months ended December 31** | | **12 months ended December 31** | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2013** | 2012 | **2013** | 2012 |
| DSUs and RSUs - (reversal)/expense | **$ (62)** | $ 339 | **$ (876)** | $ (1,033) |
| Stock option compensation - (reversal)/expense | **(768)** | 1,071 | **2,898** | 6,205 |
| Stock based compensation - (reversal)/expense | **$ (830)** | $ 1,410 | **$ 2,022** | $ 5,172 |
| Stock option compensation - capitalized | **$ (5,290)** | $ 1,004 | **$ 380** | $ 4,888 |

Initially valued at the five-day weighted average market price of the Company's shares at date of issue, DSUs and RSUs are revalued each period end based on the closing share price at the period end. The effect on the valuation of DSUs and RSUs of the period-on-period change in share price is either charged to the Statement of Loss or capitalized (the latter being for share units granted to personnel working on development projects). At December 31, 2013 the Company's share price was $0.78, compared to $0.86 at September 30, 2013 and $2.36 at December 31, 2012, giving rise to reversals for DSUs and RSUs for the three and twelve-month periods ended December 31, 2013.

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

The reduction of stock option compensation expensed and capitalized during the three and twelve-month periods ended December 31, 2013 compared to the prior periods is as a result of delayed management expectations, given the lack of progress in permitting of the Project in 2013, of the attainment of performance conditions for performance based options. The revision of expected attainment of performance conditions during Q4 2013 has resulted in an expectation that a number of grants, with vesting commencing after the performance conditions have been attained, will expire prior to vesting. This has resulted in a reversal of prior expensing during Q4 and a year-on-year decrease in stock option compensation expense and capitalization.

| | **3 months ended December 31** | | **12 months ended December 31** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Stock option compensation** | | | | |
| Number of stock options granted | **-** | - | **4,545,000** | 3,818,333 |
| Average value ascribed to each regular vesting option granted | **$ -** | $ - | **$ 1.33** | $ 4.09 |
| Options granted to corporate employees, consultants, officers, and directors | **-** | - | **2,470,000** | 2,215,833 |
| Options granted to development project employees and consultants | **-** | - | **2,075,000** | 1,602,500 |
| **DSU compensation** | | | | |
| Number of DSUs issued | **17,647** | - | **64,480** | 42,436 |
| Average value ascribed to each DSU issued | **$ 0.85** | $ - | **$ 1.58** | $ 2.59 |
| Number of DSUs redeemed | **-** | - | **109,866** | - |
| Average value ascribed to each DSU redeemed | **$ -** | $ - | **$ 1.45** | $ - |
| **RSU compensation** | | | | |
| Number of RSUs issued | **-** | - | **-** | 76,258 |
| Average value ascribed to each RSU issued | **$ -** | $ - | **$ -** | $ 5.77 |
| Number of RSUs redeemed | **25,419** | - | **50,838** | - |
| Average value ascribed to each RSU redeemed | **$ 1.09** | $ - | **$ 1.93** | $ - |

A total of 4,545,000 stock options were granted during the year ended December 31, 2013. All of the granted stock options vest over a three-year period.

DSUs issued during the year ended December 31, 2013 were to certain directors, at their election, in lieu of their quarterly director's fees. A retiring director redeemed 109,866 DSUs for shares during Q3 2013.

No RSUs were issued during the year ended December 31, 2013; 50,838 were redeemed for cash.

## Interest Income

| *in thousands of Canadian dollars* | 3 months ended December 31 2013 | 3 months ended December 31 2012 | 12 months ended December 31 2013 | 12 months ended December 31 2012 |
|---|---|---|---|---|
| Interest income | **$ 104** | $ 101 | **$ 534** | $ 842 |

Lower interest income in the twelve-month period ended December 31, 2013 compared to the same period in 2012 is largely the result of lower holdings of cash and cash equivalents (December 31, 2013: $42.1 million; December 31, 2012: $79.0 million).

As at December 31, 2013 approximately 84% of the Company's cash and cash equivalents were invested in Canadian government guaranteed instruments with 4% held as cash deposits with major Canadian banks and the remaining 12% held in recognized UK and Romanian banks.

## Foreign Exchange

| *in thousands of Canadian dollars* | 3 months ended December 31 2013 | 3 months ended December 31 2012 | 12 months ended December 31 2013 | 12 months ended December 31 2012 |
|---|---|---|---|---|
| Foreign exchange loss - realized | **$ (218)** | $ (917) | **$ (330)** | $ (946) |
| Foreign exchange gain - unrealized | **257** | 822 | **381** | 74 |
| Total foreign exchange gain/(loss) | **$ 39** | $ (95) | **$ 51** | $ (872) |

The Company expects to report reduced foreign currency gains and losses as a result of reduced exposure to non-functional currencies.

## Taxes

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

In July 2013, pursuant to a successful, final and irrevocable legal decision earlier in 2013 at Romania's Supreme Court of Justice, RMGC received $4.0 million equivalent from the Romanian fiscal authorities in respect of taxes, penalties and interest previously paid to the Romanian fiscal authorities by RMGC. An additional $0.2 million equivalent of interest and penalties was recovered from the Romanian fiscal authorities during December 2013.

## 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 and resettlement housing and infrastructure. Once the construction permits are received, the nature and magnitude of the expenditures will increase, as roads, production facilities, open pits, tailings management facilities and associated infrastructure are built.

The multiple changes in Governments in Romania, and consequential delays in Project permitting, have resulted in management seeking to actively reduce expenditure to preserve capital.

### *Mineral Properties*

All costs incurred in Project development and exploration are capitalized to mineral properties.

| | 3 months ended December 31 | | 12 months ended December 31 | |
|---|---|---|---|---|
| *in thousands of Canadian dollars* | **2013** | 2012 | **2013** | 2012 |
| Finance and administration | **$ 2,805** | $ 2,977 | **$ 7,919** | $ 7,327 |
| External communications | **5,930** | 3,435 | **13,441** | 13,028 |
| Legal | **1,659** | 1,711 | **5,269** | 5,360 |
| Permitting | **804** | 720 | **3,094** | 4,592 |
| Community development | **1,551** | 1,825 | **6,068** | 6,150 |
| Project management and engineering | **602** | 1,015 | **2,499** | 7,381 |
| Exploration - Rosia Montană | **1,018** | 914 | **1,798** | 1,862 |
| Total exploration and development expenditures | **$ 14,369** | $ 12,597 | **$ 40,088** | $ 45,700 |
| | | | | |
| Capitalized depreciation and disposals | **$ (19)** | $ 117 | **$ 399** | $ 385 |
| Capitalized stock based compensation | **$ (5,290)** | $ 1,004 | **$ 380** | $ 4,888 |
| Movement in resettlement liabilities | **$ 208** | $ (9) | **$ 252** | $ (307) |

The decrease in permitting and Project management and engineering expenditures during the year ended December 31, 2013, compared to the prior year, is as a result of undertaking only those activities that are necessary to preserve the Company's assets. These activities will increase following progress in Project permitting.

External communications expenditure was lower for the nine-month period ended September 30, 2013, compared to the same period in the prior year, largely as a consequence of the cost reduction strategy. However, during Q4 2013, external communications increased in order to support the Project during the period of the Parliamentary Review.

The Company has continued with community development activities in delivering upon its commitment to sustainable development and corporate and social responsibility. Legal activities remain ongoing in both supporting the Company's position in numerous legal challenges, and in maintaining the good title to the licenses and permits that it currently holds.

*Purchase of Capital Assets*

| *in thousands of Canadian dollars* | 3 months ended December 31 2013 | 3 months ended December 31 2012 | 12 months ended December 31 2013 | 12 months ended December 31 2012 |
|---|---|---|---|---|
| Resettlement site development costs and assets under construction | **$ (158)** | $ (2,490) | **$ 54** | $ 1,939 |
| Investment in long-lead-time equipment | **-** | - | **-** | (355) |
| Other | **85** | 3,322 | **150** | 3,812 |
| Total investment in capital assets | **$ (73)** | $ 832 | **$ 204** | $ 5,396 |
| Depreciation and disposal - expensed | **$ 85** | $ 42 | **$ 164** | $ 233 |
| Depreciation and disposal - capitalized to mineral properties | **$ 76** | $ 101 | **$ 399** | $ 376 |

The purchase of capital assets for the twelve-month period ended December 31, 2013 has decreased in line with the Company's cost reduction strategy. Activities related to further development of the resettlement sites continue to be kept at minimal levels pending permitting progress on the Project.

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

## Cash Flow Statement

### *Liquidity and Capital Resources*

The main sources of liquidity are the Company's cash and cash equivalents, stock option exercises and the equity and debt markets. As at December 31, 2013, cash and cash equivalents were $42.1 million compared to $79.0 million at December 31, 2012.

### *Working Capital*

As at December 31, 2013, the Company had working capital, calculated as total current assets less total current liabilities, of $31.7 million (2012: $65.9 million). The reduction in working capital during the twelve-month period ended December 31, 2013 relates mainly to expenditures on the Project.

As at December 31, 2013, the Company had current liabilities of $13.7 million (2012: $15.7 million). The year-on-year decrease in current liabilities relates to a reduction of trade and other payables as a consequence of the business strategy to reduce expenditure to preserve capital while the Project experiences permitting delays and a reduction in the liability for DSUs and RSUs resulting from the lower share price.

## Related Party Transactions

During the year ended December 31, 2013 the Company did not enter any significant new related party transactions.

The Company advanced loans in 2004 and 2009 in aggregate totaling US$39.5 million to the predecessor of Minvest RM (subsequently transferred to Minvest RM), the non-controlling shareholder, to facilitate various statutory share capital increases in RMGC. The balance on the two loans outstanding to Minvest RM at December 31, 2013 was US$39.5 million (2012: US$39.5 million).

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

In December 2013, the Group was required to recapitalize RMGC in order to comply with Romanian minimum company law requirements. The subscription to RMGC share capital by the Company was effected through a conversion of existing intercompany debt. On January 17, 2014 the Group agreed the transfer to the non-controlling shareholder, for nil consideration, of a proportion of the shares subscribed to in December 2013, with a face value of $20.4 million, in order to preserve the respective shareholdings in RMGC.

## Resettlement Liabilities

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

At December 31, 2013 the Company had accrued resettlement liabilities totaling $4.5 million (December 31, 2012: $4.3 million), which represents both the cost of building the remaining new homes for the local residents and outstanding delay penalties.

The remaining 24 homeowners who chose to resettle within Roșia Montană signed various extension contracts which expire in June 2014. As a result of the delay in delivery of these homes, RMGC pays a penalty of up to 20% of the agreed upon unpaid property value per year of delay as required by the agreement. At December 31, 2013 the Company has accrued $0.1 million (2012: $0.4 million) representing unpaid delay penalties. During the twelve-month period ended December 31, 2013 the Company paid delay penalties of $0.1 million (2012: $0.2 million).

## Contractual Obligations

The following is a summary of the Company's contractual capital and operating lease commitments, as of December 31, 2013 including payments due for each of the next five years and thereafter:

| *in thousands of Canadian dollars* | **Total** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019 +** |
|---|---|---|---|---|---|---|---|
| *Capital commitments* | | | | | | | |
| Resettlement | 177 | 21 | 86 | 70 | - | - | - |
| *Operating lease commitments* | | | | | | | |
| Rosia Montană exploitation license | 1,125 | 250 | 250 | 250 | 250 | 125 | - |
| Surface concession rights | 1,081 | 29 | 29 | 29 | 29 | 29 | 936 |
| Property lease agreements | 905 | 481 | 299 | 125 | - | - | - |
| Total commitments | 3,288 | 781 | 664 | 474 | 279 | 154 | 936 |

The Company and its subsidiaries have a number of agreements with arms-length third parties who provide a wide range of goods and services. Typically, the service agreements are for a term of not more than one year and permit either party to terminate for convenience on notice periods ranging from 15 to 90 days. Upon termination, the Company has to pay for services rendered and costs incurred to the date of termination. In line with the Company's current cost reduction strategy, a number of such service agreements have been reduced or terminated during the year ended December 31, 2013.

## Critical Accounting Estimates

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

### *Going Concern*

The underlying value of the Company's mineral properties is dependent upon the existence, and economic recovery, of mineral reserves in the future and the ability of the Company to obtain all necessary permits and raise long-term financing to complete the development of the properties. In addition, the Project may be subject to sovereign risk, including political and economic instability, changes in existing government regulations, for example, a ban on the use of cyanide in mining, re-designation of the Project area as an archeological site of national importance, government imposed changes to royalty levels or ownership participation, and government regulations relating to mining which may withhold the receipt of required permits or impede the Company's ability to acquire the necessary surface rights, as well as currency fluctuations and local inflation.

The base budget and forecast for 2014 for the Project includes only those expenditures and commitments to maintain the value of the Company's investment in mineral properties, maintain the mineral license and to move the Project through EIA approval. Once the EIA is approved, the cost for the acquisition of remaining surface rights, completion of the engineering control estimate, and higher activity to acquire all permits and approvals required to apply for construction permits will exceed the Company's current cash and cash equivalents holdings. As at December 31, 2013 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.

Considering the risks listed above, management's balanced assessment of the Company (and the Project) is that it remains a going concern. The Company has been accounted for as a going concern in the Financial Statements for the year ended December 31, 2013.

### *Recoverability of mineral properties*

The Company has determined that the area covered by the Roșia Montană exploitation license contains economically recoverable reserves. The ultimate recoverability of the $553.9 million carrying value at December 31, 2013 (2012: $467.2 million) plus related capital assets is dependent upon the Company's ability to obtain the necessary permits and financing to complete the development and commence profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis.

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

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

### *Future income tax assets*

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

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

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

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

### *Useful lives of capital assets*

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

### *Valuation of stock based compensation*

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

### *Valuation of fidelity bonus and other benefits*

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

## Financial instruments and other instruments

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

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

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

### *Credit risk*

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

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

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

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

### *Liquidity risk*

The Group has sufficient funds as at December 31, 2013 to settle all current and long-term liabilities.

### *Market risk*

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

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

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

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

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

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

The Group maintains cash and cash equivalents in various currencies and is therefore susceptible to market volatility as foreign cash balances are revalued to the functional currency of the entity and thereafter to the presentation currency of the Group. Therefore, the Group may report foreign exchange gains or losses during periods of significant economic and market volatility. At December 31, 2013 the Group held 87% of its cash and cash equivalents in Canadian dollars (2012: 94%).

The Company has not entered into any derivatives hedging activities.

*Sensitivity*

Based on management's knowledge and experience of the financial markets, the Company believes, based on its balance of cash and cash equivalents as at December 31, 2013 the following movements are "reasonably possible" over a twelve-month period:

- Cash and cash equivalents. A plus or minus 1% change in earned interest rates in both cases would affect net income by $0.4 million.
- The Company holds balances, albeit minor, in foreign currencies and this gives rise to exposure to foreign exchange risk. As of December 31, 2013 a plus or minus 1% change in foreign exchange rates would affect net income by less than $0.1 million.

## Risks

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

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

- Political and Economic Risks of Operating in Romania
- Permitting Process
- Acquisition of Surface Rights and Resettlement
- Mineral Tenure Rights
- Legal Challenges
- 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 and Commodity 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 and Mineral Resource Estimates
- Environmental and other Regulatory Requirements
- Infrastructure
- Accounting Policies and Internal Controls
- Conflict of Interest

## CEO/CFO Certification

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

Our CEO and CFO certify that, as at December 31, 2013 the Company's DC&P have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They also certify that the Company's ICFR have been designed and operates effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The control framework the Company's CEO and CFO used to design the Company's ICFR is the Framework (1992) issued by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

There is no limitation on scope of design as described in paragraph 5.3 of NI 52-109. There has been no change in the Company's ICFR that occurred during the year ended December 31, 2013 which has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

## Outstanding Share Data

The Company's fully diluted share capital as at March 12, 2014 was:

| | **Outstanding** |
|---|---|
| Common shares | 384,144,500 |
| Common stock options | 28,989,055 |
| Deferred share units - common shares | 552,549 |
| Restricted share units - common shares | 315,293 |
| **Fully diluted share capital** | **414,001,397** |

## Forward-Looking Statements

This MD&A contains "forward-looking information" (also referred to as "forward-looking statements") within the meaning of applicable Canadian securities legislation. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans and allowing investors and others to get a better understanding of Gabriel's operating environment.

These forward-looking statements may include statements with respect to the future financial or operating performance of the Company and its subsidiaries, the perceived merit of properties, exploration results and budgets, mineral reserves and mineral resources estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, including the Company's plans and expectations relating to the Project, the anticipated outcomes of the application processes for permits, endorsements and licenses, including but not limited to the ongoing review of the environmental impact assessment, required for the Project, or other statements that are not statements of fact.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of fact and may be forward-looking statements.

Forward-looking statements are based upon certain assumptions and other important factors regarding present and future business strategies and the environment in which the Company will operate in the future, which could prove to be significantly incorrect.

Forward-looking statements are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company and/or its subsidiaries to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, without limitation, the political and economic risks of operating in Romania, including those related to controls, regulations, political or economic developments and government instability in Romania; uncertainty of estimates of capital costs, sustaining capital costs, operating costs, production and economic returns; permitting risks, including the risk that permits and governmental approvals necessary to develop and operate the Project will not be available on a timely basis or at all, risks of maintaining the validity and enforceability of necessary permits and risks of replacing expired/cancelled permits and approvals; uncertainties relating to the assumptions underlying the Company's mineral resource and mineral reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs; risk related to the acquisition of all necessary surface rights for the development of the Project, including the risk that the Company may not acquire all such rights, or acquire such rights at acceptable prices; risks related to the Company's ability to commence production and generate material revenues or obtain adequate financing for its planned exploration and development activities; risks of defective title to mineral property, including the risk of successful legal challenges to the validity of the Company's exploitation license; risks related to the Company's ability to finance the development of the Project through external financing, strategic alliances, or otherwise; litigation risks, including the uncertainties inherent in current and future legal challenges relating to the Project; risks related to the availability of infrastructure, water, energy and other inputs; uncertainty inherent in litigation including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and the possibility that decisions may be reversed on appeal; uncertainties relating to prices for energy inputs, labour, material costs, supplies and services (including, but not limited to, labour, cement, steel, capital equipment, reagents and fuel); risks related to changes in law and regulatory requirements, including environmental

regulation; risks related to the subjectivity of estimating mineral resources and mineral reserves and the reliance on available data and assumptions and judgments used in interpretation of such data; risks related to currency fluctuations, particularly in the value of the United States dollar and/or the Canadian dollar relative to each other and to the Euro and the Romanian leu; risks related to the future market prices of gold and silver and other mineral and commodity price fluctuations, and volatility in metal prices; risks related to the need for reclamation activities on the Company's properties and uncertainty of cost estimates related thereto; risks associated with maintaining substantial levels of indebtedness, including potential financial constraints on operations; dependence on cooperation of state-owned joint venture partner in the development of the Project; risks related to the loss of key employees and the Company's ability to attract and retain qualified management and technical personnel; risks related to market events and volatility of global and local economic climate; taxation, including change in tax laws and interpretations of tax laws; mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labour disputes or other unanticipated difficulties with or interruptions in development, construction or production; risks related to opposition to the Project from non-governmental organizations or civil society; share capital dilution and share price volatility; and increased competition in the mining industry.

Forward-looking information contained herein is made as of the date of this MD&A. There can be no assurance that forward-looking information or statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information or statements. Accordingly, for the reasons set forth above, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

# Gabriel Resources Ltd.

Consolidated Financial Statements

For the year ended December 31, 2013

# Management's Responsibility for Financial Reporting

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

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

The Company's independent auditor, PricewaterhouseCoopers LLP, has conducted an audit in accordance with generally accepted auditing standards, and its report follows.

**(Signed)** ***"Jonathan Henry"***

Jonathan Henry
President and Chief Executive Officer

**(Signed)** ***"Max Vaughan"***

Max Vaughan
Chief Financial Officer

March 12, 2014

March 12, 2014

## Independent Auditor's Report

**To the Shareholders of**
**Gabriel Resources Ltd.**

We have audited the accompanying consolidated financial statements of Gabriel Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss, comprehensive (income)/loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

*PricewaterhouseCoopers LLP*
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*
*T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca*

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gabriel Resources Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

# Consolidated Statement of Financial Position

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **42,123** | 78,965 |
| Trade and other receivables | 8 | **2,092** | 1,745 |
| Prepaid expenses and supplies | | **1,146** | 948 |
| **Total current assets** | | **45,361** | 81,658 |
| **Non-current assets** | | | |
| Restricted cash | 7 | **520** | 175 |
| Property, plant and equipment | 9 | **58,504** | 53,647 |
| Mineral properties | 10 | **553,923** | 467,206 |
| **Total non-current assets** | | **612,947** | 521,028 |
| **TOTAL ASSETS** | | **658,308** | 602,686 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **8,711** | 9,970 |
| Resettlement liabilities | 13 | **4,510** | 4,258 |
| Other liabilities | 14 | **455** | 1,482 |
| **Total current liabilities** | | **13,676** | 15,710 |
| **Non-current liabilities** | | | |
| Other liabilities | 14 | **3,119** | 2,624 |
| **Total non-current liabilities** | | **3,119** | 2,624 |
| **TOTAL LIABILITIES** | | **16,795** | 18,334 |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 16 | **868,081** | 859,782 |
| Contributed surplus | | **53,352** | 52,813 |
| Currency translation adjustment | | **(14,930)** | (65,743) |
| Accumulated deficit | | **(264,990)** | (262,500) |
| **TOTAL EQUITY** | | **641,513** | 584,352 |
| **TOTAL EQUITY AND LIABILITIES** | | **658,308** | 602,686 |

**Approved by the Board of Directors**

**(Signed)** ***"Keith Hulley"***
Keith Hulley
Director

**(Signed)** ***"David Peat"***
David Peat
Director

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

# Consolidated Statement of Loss

For the year ended December 31

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **Expenses** | | | |
| Corporate, general and administrative | | **5,076** | 6,006 |
| Share-based compensation | 14,17 | **2,022** | 5,172 |
| Depreciation | | **164** | 233 |
| **Operating loss** | | **7,262** | 11,411 |
| **Other (income) / expense** | | | |
| Interest received | | **(534)** | (842) |
| Foreign exchange (gain) / loss | | **(51)** | 872 |
| **Loss before income taxes** | | **6,677** | 11,441 |
| Income tax recovery | 18 | **(4,187)** | - |
| **Loss for the year attributable to owners of the parent** | | **2,490** | 11,441 |
| **Loss per share (basic and diluted)** | 23 | **$ 0.01** | $ 0.03 |

# Consolidated Statement of Comprehensive (Income) / Loss

For the year ended December 31

(*Expressed in thousands of Canadian dollars)*

| | **2013** | 2012 |
|---|---|---|
| **Loss for the year** | **2,490** | 11,441 |
| *Other comprehensive (income) / loss* | | |
| *- may recycle to Statement of Loss in future periods* | | |
| Currency translation adjustment | **(50,813)** | 11,459 |
| **Comprehensive (income) / loss for the year attributable to owners of the parent** | **(48,323)** | 22,900 |

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

# Consolidated Statement of Changes in Shareholders' Equity

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **Common shares** | | | |
| At January 1 | | **859,782** | 855,836 |
| Shares issued on the exercise of share options | 17 | **5,400** | 2,695 |
| Transfer from contributed surplus - exercise of share options | | **2,739** | 1,251 |
| Shares issued on redemption of DSUs | | **160** | - |
| At December 31 | | **868,081** | 859,782 |
| **Contributed surplus** | | | |
| At January 1 | | **52,813** | 42,971 |
| Share-based compensation | | **3,278** | 11,093 |
| Exercise of share options | | **(2,739)** | (1,251) |
| At December 31 | | **53,352** | 52,813 |
| **Currency translation adjustment ("CTA")** | | | |
| At January 1 | | **(65,743)** | (54,284) |
| Currency translation adjustment | | **50,813** | (11,459) |
| At December 31 | | **(14,930)** | (65,743) |
| **Accumulated deficit** | | | |
| At January 1 | | **(262,500)** | (251,059) |
| Loss for the year | | **(2,490)** | (11,441) |
| At December 31 | | **(264,990)** | (262,500) |
| **Total shareholders' equity at December 31** | | **641,513** | 584,352 |

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

# Consolidated Statement of Cash Flows

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

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Loss before income taxes | | **(6,677)** | (11,441) |
| Items not affecting cash | | | |
| Depreciation | | **164** | 233 |
| Share-based compensation | | **2,022** | 5,172 |
| Unrealized foreign exchange gain | | **(350)** | (4) |
| RSU cash settlement | | **(70)** | - |
| Net changes in non-cash working capital | 24 | **137** | (639) |
| Cash utilized in operations | | **(4,774)** | (6,679) |
| Income taxes recovered | 18 | **4,187** | - |
| | | **(587)** | (6,679) |
| **Cash flows used in investing activities** | | | |
| Exploration and development expenditures | 24 | **(40,088)** | (45,700) |
| Purchase of capital assets | | **(204)** | (5,396) |
| Net changes in non-cash working capital | 24 | **(1,222)** | (1,328) |
| | | **(41,514)** | (52,424) |
| **Cash flows provided by financing activities** | | | |
| Proceeds from the exercise of share options | | **5,400** | 2,695 |
| | | **5,400** | 2,695 |
| **Decrease in cash and cash equivalents** | | **(36,701)** | (56,408) |
| **Effect of foreign exchange on cash and cash equivalents** | | **(141)** | (93) |
| **Cash and cash equivalents - beginning of year** | | **78,965** | 135,466 |
| **Cash and cash equivalents - end of year** | 24 | **42,123** | 78,965 |

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

## 1. Nature of operations

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

The Company is presently in the permitting stage in the development of its majority-owned Roșia Montană gold and silver project (the "Project"). Roșia Montană Gold Corporation ("RMGC") is the beneficial owner of, and holds an exclusive exploitation license for, the Project. Since obtaining the Project's exploitation license, RMGC 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' (together the "Group") mineral properties, and in particular the Project, is dependent upon the existence and economic recovery of such proven ore body reserves in the future together with 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 or state ownership applicable to the Project, a ban on the use of cyanide in mining, 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 litigation risk against permits and the Project, currency fluctuations and local inflation. The suspension of the review of the Project's Environmental Impact Assessment ("EIA") by the Ministry of Environment in September 2007 (subsequently resumed in September 2010) demonstrates the significant risks that the Project may face. More recently, legislation intended to support further investment in the mining sector, and consequently include elements of benefit to the Project, has been sent to the Romanian Parliament for debate and adoption. The outcome of the parliamentary process to-date has been an insufficient number of supporting votes to see the legislation carried, however the outlook regarding any re-submission is uncertain. The significant delays in the Romanian government promulgating mining legislation to enable progress on a re-invigoration of the mining industry including the Project; on-going delays in obtaining the environmental and other critical permits; continued political, public, and NGO opposition to the Project; and the multitude of legal challenges to permits issued in respect of the Project demonstrate the significant risks that the Project faces.

Such risks, if realized, may adversely affect the Group's ability to continue as a going concern and may result in the impairment or loss of all or part of the Group's assets.

These consolidated financial statements have been prepared using IFRS applicable to a "going concern", which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at December 31, 2013 the Group had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project and therefore will require additional funding which, if not raised, would result in the curtailment of activities and Project delays.

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

The Company's registered address is Suite 200 – 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2. The Company receives significant management services from its wholly-owned subsidiary, RM Gold (Services) Ltd. ("RMGS"). The principal place of business for RMGS is 16 Great Queen Street, London, WC2B 5DG, United Kingdom. The Company is the ultimate parent of the Group and does not have any controlling shareholders.

## 2. Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on March 12, 2014.

## 3. Basis of preparation

The consolidated financial statements are prepared according to the historical cost convention.

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

## 4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

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

There has been no change in the ownership structure of the Group during 2013.

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

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

## 5. Critical accounting estimates, risks and uncertainties

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

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

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

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

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

## 6. Significant accounting policies

### *Cash and cash equivalents*

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

### *Property, plant and equipment*

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

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

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

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

## 6. Significant accounting policies (continued)

### *Exploration and evaluation costs*

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

### *Mineral properties and development expenditures*

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

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

### *Impairment of non-financial assets*

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

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

## 6. Significant accounting policies (continued)

### *Provisions*

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

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

At December 31, 2013 the Group has not incurred or committed to any asset retirement obligations related to the development of its mineral properties in Romania.

### *Foreign currency translation*

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

## 6. Significant accounting policies (continued)

### *Financial instruments*

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

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

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

**Available-for-sale investments:** Non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale investments are initially recognized at fair value plus transaction costs and subsequently carried at fair value with changes in fair value recognized in other comprehensive loss.

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

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

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

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

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

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

### *Loss per share*

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

## 6. Significant accounting policies (continued)

### *Share based payments*

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

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

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

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

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

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

### *Income taxes*

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

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

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

### *Lease payments*

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

## 6. Significant accounting policies (continued)

### *Employee benefits*

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

### *Accounting standards and amendments*

The following IFRS or IFRIC interpretations are effective for the first time for the financial year ended December 31, 2013:

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

The adoption of these new standards has not had a material impact on the results or disclosures of the Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

- IAS 36 Impairment of Assets (“IAS 36”): On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied prospectively. The Group has not previously impaired assets. If future impairment is required, or if the conditions that gave rise to the impairment are subsequently reverse, the Group will be subject to the disclosures required by IAS 36.

## 7. Cash and cash equivalents

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Cash at bank and on hand | **6,954** | 8,718 |
| Short-term bank deposits | **35,169** | 70,247 |
| Cash and cash equivalents | **42,123** | 78,965 |
| Restricted cash | **520** | 175 |
| | **42,643** | 79,140 |

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

The Group manages its domestic Romanian bank credit risk by centralizing custody, control and management of its surplus cash resources from its corporate office and only transferring money to its Romanian subsidiary based on near term cash requirements, thereby mitigating exposure to domestic Romanian banks. At December 31, 2013 the Group held $4.5 million equivalent in Romanian banks (2012: $2.4 million).

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

Restricted cash represents cash collateralization of environmental guarantees for future clean-up costs. In addition, in late 2013 the Romanian regional prosecutor's office in Ploiesti placed a restriction order on $0.3 million held in one of RMGC's Romanian bank accounts pending the outcome of an investigation into a Group of companies of which one was a former supplier to RMGC. The restricted amount represents the value of the goods procured from the supplier during 2012. RMGC is challenging the legality of the restriction and is continuing to cooperate fully with the Ploiesti prosecutor's office.

## 8. Trade and other receivables

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Trade and other receivables | **34** | 51 |
| VAT and sales taxes | **2,058** | 1,694 |
| | **2,092** | 1,745 |

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| UK pound sterling | **84** | 43 |
| Romanian leu | **2,008** | 1,702 |
| | **2,092** | 1,745 |

As at December 31, 2013 no impairment has been recorded as the amounts outstanding are expected to be recovered in full (2012: Nil). None of the VAT receivables were past due (2012: $0.1 million, but not impaired).

## 9. Property, plant and equipment

| | Office equipment | Building | Vehicles | Leasehold improvements | Construction in progress[1] | TOTAL |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **Balance - December 31, 2011** | **3,051** | **719** | **1,431** | **278** | **49,086** | **54,565** |
| Additions | 238 | - | 94 | 4 | 5,060 | 5,396 |
| Reclassifications | 1,176 | 2,300 | - | - | (3,476) | - |
| Disposals | (90) | - | (28) | - | - | (118) |
| Currency translation adjustment | (40) | 50 | (42) | - | (2,642) | (2,674) |
| **Balance - December 31, 2012** | **4,335** | **3,069** | **1,455** | **282** | **48,028** | **57,169** |
| Additions | 126 | 13 | - | 11 | 54 | 204 |
| Disposals | (15) | - | (4) | - | - | (19) |
| Currency translation adjustment | 335 | 307 | 141 | - | 4,699 | 5,482 |
| **Balance - December 31, 2013** | **4,781** | **3,389** | **1,592** | **293** | **52,781** | **62,836** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **Balance - December 31, 2011** | **2,128** | **64** | **859** | **28** | **-** | **3,079** |
| Depreciation | 406 | 16 | 131 | 56 | - | 609 |
| Disposals | (81) | - | (28) | - | - | (109) |
| Currency translation adjustment | (34) | (1) | (22) | - | - | (57) |
| **Balance - December 31, 2012** | **2,419** | **79** | **940** | **84** | **-** | **3,522** |
| Depreciation | 358 | 20 | 130 | 55 | - | 563 |
| Disposals | (15) | - | (4) | - | - | (19) |
| Currency translation adjustment | 157 | 9 | 100 | - | - | 266 |
| **Balance - December 31, 2013** | **2,919** | **108** | **1,166** | **139** | **-** | **4,332** |
| **CARRYING AMOUNT** | | | | | | |
| At December 31, 2011 | 923 | 655 | 572 | 250 | 49,086 | 51,486 |
| At December 31, 2012 | 1,916 | 2,990 | 515 | 198 | 48,028 | 53,647 |
| **At December 31, 2013** | **1,862** | **3,281** | **426** | **154** | **52,781** | **58,504** |

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

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

Construction in progress includes the following amounts:

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Resettlement site development costs | **4,160** | 3,730 |
| Long lead-time equipment | **48,621** | 44,298 |
| | **52,781** | 48,028 |

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

## 10. Mineral properties

| | **Rosia Montana** |
|---|---|
| **Balance - December 31, 2011** | 425,382 |
| Development costs - additions [(1)] | 50,666 |
| Currency translation adjustment | (8,842) |
| **Balance - December 31, 2012** | 467,206 |
| Development costs - additions [(1)] | **41,119** |
| Currency translation adjustment | **45,598** |
| **Balance - December 31, 2013** | **553,923** |

*[(1)] Mineral property additions of $41.1 million (2012: $50.7 million) is $1.0 million higher than the amount reported in the Consolidated Statements of Cash Flows of $40.1 million (2012: $45.7 million). The difference is attributed to a net adjustment of resettlement liabilities, non-cash charges for share based compensation and amortization (see details in Note 24).*

At December 31, 2013 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. Minvest Roșia Montană S.A. ("Minvest"), a Romanian state-owned mining company, holds the remaining 19.31% interest in RMGC. The Group holds the pre-emptive right to acquire the 19.31% non-controlling interest. The Company is required to fund 100% of all expenditures related to the exploration and development of these properties and holds a preferential right to recover all funding plus interest (other than on non-interest bearing loans) from future cash flows prior to the non-controlling shareholders receiving dividends.

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

## 11. Trade and other payables

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Trade payables | **3,284** | 4,914 |
| Payroll liabilities | **2,671** | 2,200 |
| Accrued expenses | **2,756** | 2,856 |
| | **8,711** | 9,970 |

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| UK pound sterling | **814** | 450 |
| Canadian dollar | **851** | 1,374 |
| United States dollar | **221** | - |
| Euro | **68** | 35 |
| Romanian leu | **6,757** | 8,111 |
| | **8,711** | 9,970 |

## 12. Exploration and evaluation expenses

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

## 13. Resettlement liabilities

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

At December 31, 2013 the Group had accrued resettlement liabilities totaling $4.5 million (December 31, 2012 – $4.3 million), which represents the cost of building the remaining new homes for the local residents plus outstanding delay penalties.

## 13. Resettlement liabilities (continued)

The construction of all 125 homes at the Recea resettlement site in Alba Iulia was completed in 2010. The Group has reviewed, and may continue to review, the technical merits for a further resettlement village to be built, as well as the process of obtaining permits for this resettlement site. The remaining 24 property owners who chose to resettle within Roșia Montană have signed various extension contracts which expire in June 2014. As a result of the delay in the delivery of homes, the Group pays a penalty of up to 20% of the agreed unpaid property value per year of delay as required by the agreement. As at December 31, 2013 the Group has accrued $0.1 million (December 31, 2012 - $0.4 million) representing unpaid delay penalties.

## 14. Other liabilities

(a) DSUs

| | DSUs (000's) | Price per common share (dollars) | Value |
|---|---|---|---|
| **Outstanding - December 31, 2011** | 399 | 6.28 | 2,497 |
| Granted | 42 | 2.62 | 110 |
| Amortized[1] | 133 | 5.52 | 734 |
| Change in fair value | | | (1,987) |
| **Outstanding - December 31, 2012** | 574 | 2.36 | 1,354 |
| Granted | **65** | **1.58** | **103** |
| Amortized[1] | **5** | **8.20** | **41** |
| Settled | **(110)** | **1.45** | **(160)** |
| Change in fair value | | | **(922)** |
| **Balance - December 31, 2013** | **534** | **0.78** | **416** |

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

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

During the year ended December 31, 2013 the Company recorded a credit of $0.8 million (2012: credit of $1.1 million) to share based compensation expense related to DSUs and capitalized Nil (2012: Nil). DSUs settled during the year, by the issuance of shares, amounted to $0.2 million (2012: Nil).

(b) RSUs

As set out in Note 6, the Company has a RSU Plan under which qualifying participants may receive a portion of their compensation in the form of RSUs. Upon vesting participants may redeem their RSUs for common shares of the Company, cash, or a combination of common shares of the Company and cash. RSUs are measured and accounted for in the same way as DSUs. No RSUs were granted prior to 2012.

## 14. Other liabilities (continued)

| | RSUs (000's) | Price per common share (dollars) | Value |
|---|---|---|---|
| **Outstanding - December 31, 2011** | - | - | - |
| Amortized[1] | 47 | 5.77 | 269 |
| Change in fair value | | | (159) |
| **Outstanding - December 31, 2012** | 47 | 2.36 | 110 |
| Amortized[1] | **21** | **5.77** | **122** |
| Settled | **(51)** | **1.93** | **(98)** |
| Change in fair value | | | **(121)** |
| **Balance - December 31, 2013** | **17** | **0.78** | **13** |

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

During the year ended December 31, 2013 the Company recorded an expense of Nil (2012: $0.1 million) of share based compensation expense related to RSUs and capitalized Nil (2012: Nil). RSUs settled during the year, for cash, amounted to $0.1 million (2012: Nil).

(c) Fidelity bonus and other benefits

| | **2013** | 2012 |
|---|---|---|
| **Balance accrued - January 1** | **2,642** | 1,853 |
| Expense / (gain) for the year | | |
| - Interest cost | **226** | 166 |
| - Current service cost | **100** | 389 |
| - Recognized actuarial loss / (gain) | **(61)** | 320 |
| Total expense / (gain) for the year[1] | **265** | 875 |
| Payments | **(41)** | (17) |
| FX adjustment | **279** | (69) |
| **Balance - December 31** | **3,145** | 2,642 |

[1] *Fidelity bonus and other benefits relate to RMGC. As a result, all actuarially determined adjustments are capitalized to mineral properties.*

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Employee turnover rate (average based on model) | **3.50%** | 3.50% |
| Years with full staff compliment | **18** | 18 |
| Years with 50% staff compliment | **6** | 6 |
| Weighted average inflation rate (applied discount rate) | **4.2%** | 3.1% |
| Weighted average salary increase rates (above inflation) | **1.5%** | 1.4% |

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

## 14. Other liabilities (continued)

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| **Total other liabilities (a) + (b) + (c)** | **3,574** | 4,106 |

Other liabilities are disclosed as:

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Current liabilities - Other liabilities | **455** | 1,482 |
| Non-current liabilities - Other liabilities | **3,119** | 2,624 |
| **Total other liabilities** | **3,574** | 4,106 |

## 15. Related party transactions

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

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

(b) In December 2004, the Company advanced a loan of US$0.9 million to the non-controlling shareholder of RMGC, which remains outstanding at December 31, 2013.

(c) In 2009 the Company advanced a further loan of US$38.6 million to the non-controlling shareholder of RMGC to facilitate another statutory share capital increase in RMGC, which remains outstanding at December 31, 2013.

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

(e) In December 2013, the Group was required to recapitalize RMGC in order to comply with minimum company law requirements. The subscription to RMGC share capital by the Company was effected through a conversion of existing intercompany debt. On January 17, 2014 the Group agreed to transfer to the non-controlling shareholder, for nil consideration, a proportion of the shares subscribed to in December 2013, with a face value of $20.4 million, in order to preserve the respective shareholdings in RMGC.

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Salaries and other short-term employee benefits | **1,593** | 1,655 |
| Directors' fees[(1)] | **613** | 602 |
| DSUs and RSUs[(2)] | **-** | 440 |
| Share options[(2)] | **1,409** | 3,096 |
| **Total** | **3,615** | 5,793 |

[(1)] *Certain non-executive directors elected during the year to receive DSUs in lieu of cash payments. The fair value at grant date is included in directors' fees.*
[(2)] *DSUs, RSUs and share options granted to key Management are fair valued at the grant date.*

## 16. Share capital

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

Issued:

| | Note | Number of shares (000's) | Amount |
|---|---|---|---|
| **Balance - December 31, 2011** | | 379,614 | 855,836 |
| Shares issued on the exercise of share options | 17 | 926 | 2,695 |
| Transfer from contributed surplus - exercise of share options | | | 1,251 |
| **Balance - December 31, 2012** | | 380,540 | 859,782 |
| Shares issued on the exercise of share options | 17 | **3,495** | **5,400** |
| Shares issued on the exercise of DSUs | | **110** | **160** |
| Transfer from contributed surplus - exercise of share options | | | **2,739** |
| **Balance - December 31, 2013** | | **384,145** | **868,081** |

## 17. Common share options

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

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

As at December 31, 2013 common share options held by directors, officers, employees and consultants are as follows:

| | Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|---|
| Range of exercise prices (dollars) | Number of options (thousands) | Weighted average exercise price (dollars) | Weighted average remaining contractual life (years) | Number of options (thousands) | Weighted average exercise price (dollars) | Weighted average remaining contractual life (years) |
| 0.82 - 1.00 | 2,090 | 0.82 | 4.7 | 174 | 0.82 | 4.7 |
| 1.01 - 2.00 | 4,459 | 1.82 | 3.7 | 1,747 | 1.85 | 3.1 |
| 2.01 - 4.00 | 2,500 | 3.17 | 0.6 | 2,000 | 3.35 | 0.7 |
| 4.01 - 6.00 | 6,084 | 5.06 | 2.0 | 4,157 | 5.15 | 2.0 |
| 6.01 - 8.13 | 7,006 | 7.95 | 2.1 | 1,978 | 7.62 | 2.2 |
| | 22,139 | 4.71 | 2.4 | 10,056 | 4.63 | 2.0 |

## 17. Common share options (continued)

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

| | **Number of options (thousands)** | **Weighted average exercise price (dollars)** |
|---|---|---|
| **Balance - December 31, 2011** | 24,825 | 4.26 |
| Options granted | 3,819 | 4.09 |
| Options expired | (365) | 4.47 |
| Options exercised | (926) | 2.91 |
| **Balance - December 31, 2012** | 27,353 | 4.28 |
| Options granted | **4,545** | **1.33** |
| Options expired | **(6,264)** | **2.17** |
| Options exercised | **(3,495)** | **1.55** |
| **Balance - December 31, 2013** | **22,139** | **4.71** |

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

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

During the year ended December 31, 2013 the Company granted 4.5 million options (2012: 3.8 million). All of the options granted vest over a three-year period.

Certain historical option grants have performance vesting conditions. The fair value of these options that vest upon achievement of milestones will be recognized and expensed over the estimated vesting period of these options. Adjustments resulting from the recalculation of the estimated vesting periods are recorded in the Consolidated Statement of Loss.

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Weighted average risk-free interest rate | **1.32%** | 1.17% |
| Volatility of share price (over previous three year period) | **77%** | 63% |
| Weighted average life of options (years) | **3.3** | 3.2 |
| Forfeiture rate | **5.0%** | 5.0% |
| Weighted average fair value of awards ($) | **0.66** | 1.73 |

As of December 31, 2013 the remaining fair value of options to be expensed is $4.7 million (2012: $6.3 million) and to be capitalized is $9.4 million (2012: $11.8 million).

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Expensed | **2,898** | 6,205 |
| Capitalized | **380** | 4,888 |

## 18. Income taxes

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Current income tax expense | **-** | - |
| Deferred income tax (recovery) / expense on tax benefit | | |
| - Previously unrecognised assets | (4,187) | - |
| **Income tax recovery** | **(4,187)** | **-** |

In July 2013, pursuant to a successful, final and irrevocable legal decision earlier in the year at Romania's Supreme Court of Justice, RMGC received $4.0 million from the Romanian fiscal authorities in respect of taxes, penalties and interest previously paid to the Romanian fiscal authorities by RMGC. An additional, related recovery of penalties and interest of $0.2 million was received during December 2013.

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

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Loss before income taxes | **6,677** | 11,441 |
| Income tax rate [1] | **30%** | 30% |
| Income tax at statutory rates | **(2,003)** | (3,432) |
| Tax effects of: | | |
| - Non-deductable items / permanent differences | **607** | 1,552 |
| - Unrecognised deferred tax assets | **1,396** | 1,880 |
| Recovery of prior year taxes | **(4,187)** | - |
| **Income tax recovery** | **(4,187)** | **-** |

[1] *The Income tax rate reflects the combined federal and provincial tax rates in effect in Yukon, Canada for each period shown.*

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

| | **Canada** | | |
|---|---|---|---|
| | **December 31 2013** | December 31 2012 | Expiry |
| Losses carried forward | **79,014** | 74,635 | 2014-2033 |
| Unclaimed share issue cost | **-** | 845 | No expiry |
| Capital assets | **1,362** | 1,338 | No expiry |
| Cumulative eligible capital expenditures | **12,669** | 12,669 | No expiry |
| **Deductable temporary differences** | **93,045** | 89,487 | |

RMGC has unrecognized book to tax differences in Romania of $17.5 million (2012: $20.5 million), of which certain amounts are contingent on the achievement of certain debt to equity ratios and the balance on profitable earnings. These differences could give rise to deferred tax assets. The losses carried forward, which are a component of the book to tax differences amounting to $112.6 million (2012: $92.9 million) have expiry dates between 2014 and 2018, which if not utilized could give rise to deferred tax liabilities.

RM Gold (Services) Ltd has $3.0 million of unrecognized temporary differences in the United Kingdom (2012: $2.3 million).

The Group does not recognize deferred tax assets until such time as the recovery of the taxes is probable.

## 19. Segmented information

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

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

The segmental report is as follows:

| | **Mining** | | **Corporate** | | **Total** | |
|---|---|---|---|---|---|---|
| **For the year ended December 31,** | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| **Reportable items in the Consolidated Statements of Loss and Comprehensive Loss** | | | | | | |
| Finance income | - | - | **(534)** | (842) | **(534)** | (842) |
| Amortization | - | - | **164** | 233 | **164** | 233 |
| Reportable segment loss | - | - | **2,490** | 11,441 | **2,490** | 11,441 |
| **As at December 31,** | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| **Reportable segment in Consolidated Statement of Financial Position** | | | | | | |
| Reportable segment current assets | **7,510** | 4,704 | **37,851** | 76,954 | **45,361** | 81,658 |
| Reportable segment non - current assets | **612,735** | 520,701 | **212** | 327 | **612,947** | 521,028 |
| Reportable segment liabilities | **(14,413)** | (14,991) | **(2,382)** | (3,343) | **(16,795)** | (18,334) |

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

## 20. Financial instruments

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

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

### *Credit risk*

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

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

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

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

### *Liquidity risk*

The Group has sufficient funds as at December 31, 2013 to settle all current and long-term liabilities. As at December 31, 2013 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.

### *Market risk*

(a) Interest rate risk

The Group has significant cash balances and no debt. With the Group maintaining a short-term investment horizon, typically less than 3 months, for its cash and cash equivalents, it minimizes the risk of interest rate volatility as investments mature and are rolled over.

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

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

## 20. Financial instruments (continued)

(b) Foreign currency risk

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

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

### *Financial instruments*

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

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

### *Sensitivity analysis*

As of December 31, 2013 the carrying amount of the financial instruments equals fair market value. Based on Management's knowledge and experience of the financial markets, the Company believes, based on its balance of cash and cash equivalents as at December 31, 2013, the following movements are "reasonably possible" over a twelve-month period:

- Cash and cash equivalents. A plus or minus 1% change in earned interest rates would affect net interest income by $0.4 million.
- The Group holds minor balances in foreign currencies, and this gives rise to exposure to foreign exchange risk. As of December 31, 2013 a plus or minus 1% change in foreign exchange rates would affect net income by less than $0.1 million.

## 21. Capital management

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

In order to maintain or adjust the capital structure, the Group has, when required, raised additional capital from shareholders. The Group has not paid dividends, nor returned capital to shareholders to date. At December 31, 2013 the Group did not have any debt. To safeguard capital the Group invests its surplus cash and cash equivalents in highly liquid, highly rated financial instruments.

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

With the exception of minimum capital requirements pursuant to general company law, the Group is not subject to any other externally imposed capital requirements.

## 22. Commitments and contingencies

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

| | Note | Total | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|---|---|---|
| *Capital commitments* | | | | | | | | |
| Resettlement | a | 177 | 21 | 86 | 70 | - | - | - |
| *Operating lease commitments* | | | | | | | | |
| Rosia Montana exploitation license | b | 1,125 | 250 | 250 | 250 | 250 | 125 | - |
| Surface concession rights | c | 1,081 | 29 | 29 | 29 | 29 | 29 | 936 |
| Lease agreements | d | 905 | 481 | 299 | 125 | - | - | - |
| Total commitments | | 3,288 | 781 | 664 | 474 | 279 | 154 | 936 |

(a) RMGC has contracted building services for the construction of houses in Recea, Alba Iulia for resettlement of residents of the Project area. Construction activities were largely completed as at December 31, 2013. The construction contracts are 'arms-length' agreements with unrelated third parties.

(b) Under the terms of the Group's exploitation mineral license for the Project, an annual fee is required to be paid to maintain the license in good standing. The current annual fee is approximately $0.3 million. These fees are indexed annually by the Romanian Government until expiry, which is currently June 2019 subject to further prospective renewals.

(c) RMGC has approximately 40 years remaining on concession agreements with the Local Councils of Roșia Montană and Abrud by which it is granted exploitation rights to property located on and around one of the Project's proposed open pits for an annual payment of $29,000.

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

## 23. Loss per share

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| Loss for the year attributable to owners of the parent | **2,490** | 11,441 |
| Weighted-average number of common shares (000's) | | |
| Basic number of shares | **383,193** | 379,990 |
| Dilutive effect of: | | |
| Share options | **-** | 9,952 |
| Deferred and restricted share units | **616** | 625 |
| Total diluted number of shares | **383,809** | 390,567 |
| Basic and diluted loss per share | **$ 0.01** | $ 0.03 |

Share options are deemed to be dilutive to the extent that, at the reporting date, the options are 'in-the-money'.

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

## 24. Supplemental cash flow information

| | **December 31 2013** | December 31 2012 |
|---|---|---|
| (a) Net changes in non-cash working capital | | |
| Operating activities: | | |
| Accounts receivable, prepaid expenses and supplies | **(97)** | (2) |
| Accounts payable and accrued liabilities | **234** | (734) |
| Unrealized foreign exchange gain on working capital | **-** | 97 |
| | **137** | (639) |
| Investing activities: | | |
| Accounts receivable, prepaid expenses and supplies | **(448)** | 4,097 |
| Accounts payable and accrued liabilities | **(774)** | (5,425) |
| | **(1,222)** | (1,328) |
| (b) Exploration and development expenditures | | |
| Balance sheet change in mineral properties excluding CTA | **(41,119)** | (50,666) |
| Decrease in resettlement liabilities | **252** | (307) |
| Non-cash depreciation and disposal capitalized | **399** | 385 |
| Share based compensation capitalized | **380** | 4,888 |
| Exploration and development expenditures per cash flow statement | **(40,088)** | (45,700) |
| (c) Cash and cash equivalents is comprised of: | | |
| Cash | **6,954** | 8,718 |
| Short-term investments (less than 90 days) - weighted average interest of 0.92% (2011 - 0.91%). | **35,169** | 70,247 |
| | **42,123** | 78,965 |

## 25. Post balance sheet events

On January 17, 2014 the Group agreed to transfer to the non-controlling shareholder, for nil consideration, a proportion of the shares subscribed to in December 2013, with a face value of $20.4 million (refer to note 15(e)).

In February 2014, RMGC initiated legal procedures for the retrenchment of a significant proportion of its employees. As of March 1, 2014, approximately 400 RMGC employees, on both permanent and temporary contracts, equivalent to 80 per cent of the RMGC workforce, have been placed into ‘technical unemployment’ for a period of two months. This is a legal procedure in Romania whereby the employment contracts of such employees are temporarily suspended pending consultation with the local trade union and concerned authorities regarding retrenchment compensation. If there is no progress in the advancement of the Project, the affected contracts will be terminated as of May 1, 2014. The discussions between RMGC and the relevant organizations remain ongoing and, as at the reporting date, the potential aggregate amount, and timing of, any future retrenchment payments is unknown. Notwithstanding, the Company is of the view that the total RMGC aggregate payroll cost for 2014 following any such retrenchment is likely to be lower than it would otherwise have been without such action.