

Gabriel Resources Ltd.

Consolidated Financial Statements

For the year ended December 31, 2016

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 29, 2017



March 29, 2017

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, 2016 and December 31, 2015 and the consolidated income statements and statements of comprehensive income, 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, 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 opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(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	2016	2015
Assets			
Current assets			
Cash and cash equivalents	9	60,267	18,567
Trade and other receivables	10	596	117
Prepaid expenses and supplies		523	869
Total current assets (excluding assets classified as held for sale)		61,386	19,553
Assets classified as held for sale	8	13,417	19,646
Total current assets		74,803	39,199
Non-current assets			
Restricted cash	9	506	533
Property, plant and equipment	11	149	4,683
Total non-current assets		655	5,216
TOTAL ASSETS		75,458	44,415
Liabilities			
Current liabilities			
Trade and other payables	13	3,375	2,595
Resettlement liabilities	14	742	1,162
Other current liabilities	15	1,211	388
Total current liabilities		5,328	4,145
Non-current liabilities			
Convertible unsecured notes	16	56,154	30,400
Other non-current liabilities	15	-	1,145
Total non-current liabilities		56,154	31,545
TOTAL LIABILITIES		61,482	35,690
Equity			
Share capital	18	868,279	868,086
Other reserves	16,18	131,562	53,843
Currency translation adjustment		1,329	2,254
Accumulated deficit		(991,085)	(919,570)
Equity attributable to owners of the parent		10,085	4,613
Non-controlling interest	20	3,891	4,112
TOTAL EQUITY		13,976	8,725
TOTAL EQUITY AND LIABILITIES		75,458	44,415

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 Income Statement

For the year ended December 31

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

	Notes	2016	2015
Expenses			
Corporate, general and administrative	7	19,433	11,479
Impairment of mineral properties and property plant and equipment	11,12	8,062	631,178
Severance costs		38	858
Share-based compensation	15,19	2,184	479
Depreciation		314	137
Operating loss		30,031	644,131
Other (income) / expense			
Finance income		(151)	(207)
Gain on disposal of fixed assets		(1,001)	-
Debt extinguishment charge	16	4,710	-
Charge on issue of in the money equity instruments	16	34,366	-
Finance costs - convertible note interest accretion	16	4,426	3,784
Foreign exchange (gain) / loss		(866)	46
Loss for the year		71,515	647,754
Loss for the year attributable to:			
- Owners of the parent		71,515	627,832
- Non-controlling interest	20	-	19,922
Loss for the year		71,515	647,754
Loss per share (basic and diluted)	23	\$ 0.19	\$ 1.63

Consolidated Statement of Comprehensive Income

For the year ended December 31

(Expressed in thousands of Canadian dollars)

	Note	2016	2015
Loss for the year		71,515	647,754
<i>Other comprehensive (income) / loss</i>			
<i>- may recycle to the Income Statement in future years</i>			
Currency translation adjustment		1,146	(46,437)
Comprehensive loss for the year		72,661	601,317
- Owners of the parent		72,882	590,362
- Non-controlling interest	20	(221)	10,955
Comprehensive loss for the year		72,661	601,317

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	2016	2015
Common shares			
At January 1		868,086	868,081
Shares issued on the exercise of share options	18	17	3
Transfer from contributed surplus - exercise of share options	18	11	2
Shares issued on redemption of DSUs	18	165	-
At December 31		868,279	868,086
Other reserves			
At January 1		53,843	52,832
Share-based compensation	18	1,003	1,013
Exercise of share options		(11)	(2)
Equity component of convertible notes, net of issue costs	16	44,571	-
Warrants, net of issue costs	16	32,156	-
At December 31		131,562	53,843
Currency translation adjustment			
At January 1		2,254	(35,216)
Currency translation adjustment		(925)	37,470
At December 31		1,329	2,254
Accumulated deficit			
At January 1		(919,570)	(291,738)
Loss for the year		(71,515)	(627,832)
At December 31		(991,085)	(919,570)
Non-controlling interest			
At January 1		4,112	15,067
Loss for the year		-	(19,922)
Currency translation adjustment		(221)	8,967
At December 31		3,891	4,112
Total shareholders' equity at December 31		13,976	8,725

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	2016	2015
Cash flows used in operating activities			
Loss before income taxes		(71,515)	(647,754)
Items not affecting cash			
Depreciation		314	137
Share-based compensation		2,184	479
Gain on disposal of fixed assets		(1,001)	-
Debt extinguishment charge	16	4,710	-
Impairment of mineral properties and property plant and equipment	12	8,062	631,178
Charge on issue of in-the-money equity instruments	16	34,366	-
Finance costs - convertible note interest accretion	16	4,426	3,784
Unrealized foreign exchange loss / (gain)		2,033	(312)
Cash used in operations		(16,421)	(12,488)
RSU cash settlement		(49)	(68)
Net changes in non-cash working capital	27	(2,230)	768
		(18,700)	(11,788)
Cash flows provided by / (used in) investing activities			
Exploration and development expenditures	27	-	(9,497)
Purchase of capital assets	11	(54)	(138)
Proceeds from sale of long lead-time equipment		2,636	-
Net changes in non-cash working capital	27	-	(1,329)
		2,582	(10,964)
Cash flows provided by / (used in) financing activities			
Proceeds from issuance of private placement, net of issue costs	16	59,206	-
Finance charges on private placement	16	(17)	(2,800)
Proceeds from the exercise of share options	18	11	3
		59,200	(2,797)
Increase / (decrease) in cash and cash equivalents		43,082	(25,549)
Effect of foreign exchange on cash and cash equivalents		(1,382)	(40)
Cash and cash equivalents - beginning of year		18,567	44,156
Cash and cash equivalents - end of year	27	60,267	18,567

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

1. Nature of operations

Gabriel Resources Ltd. (“Gabriel” or the “Company”) is a Toronto Stock Exchange listed Canadian resource company whose activities have been focused on permitting and developing the Roşia Montană gold and silver project (the “Project”) in Romania. The exploitation license for the Project (“License”) is held by Roşia Montană Gold Corporation S.A. (“RMGC”), a Romanian company in which Gabriel owns an 80.69% equity interest, with the 19.31% balance held by Minvest Roşia Montană S.A. (“Minvest RM”), a Romanian state-owned mining company.

Upon obtaining the License in 1999, RMGC along with Gabriel and its subsidiary companies (together the “Group”) focused substantially all of their management and financial resources on identifying and defining the size of the four known ore bodies, engineering to design the size and scope of the Project, surface rights acquisitions, rescue archaeology and environmental assessment and permitting.

On July 21, 2015, pursuant to the provisions of international bilateral investment protection treaties which the Romanian State entered into with each of Canada and the United Kingdom of Great Britain and Northern Ireland for the Promotion and Reciprocal Protection of Investments (together the “Treaties”), Gabriel and its subsidiary company, Gabriel Resources (Jersey) Limited, filed a request for arbitration (“Arbitration Request”) before the World Bank’s International Centre for Settlement of Investment Disputes (“ICSID”) against the Romanian State (“ICSID Arbitration”). The Arbitration Request was registered by ICSID on July 30, 2015 and the presiding tribunal for the ICSID Arbitration (“Tribunal”) was constituted on June 21, 2016. The ICSID Arbitration seeks compensation for all of the loss and damage resulting from the State’s wrongful conduct and its breaches of the Treaties’ protections against expropriation, unfair and inequitable treatment and discrimination in respect of the Project and the related licenses.

Whilst the Company’s primary objective has always been the development of the Project to operational status, as of the date of these audited consolidated financial statements, the Company has not been afforded the opportunity to discuss an amicable resolution with Romania regarding the dispute that would allow for the development of the Project. Meanwhile the ICSID Arbitration process is advancing. The first Tribunal hearing took place on August 12, 2016. On January 10, 2017, the Tribunal issued its procedural calendar for the ICSID Arbitration process and required documents. The first significant date is June 30, 2017 by which date Gabriel, as claimant, has to deliver its memorial.

The approved 2017 budget includes those expenditures and commitments necessary to maintain the Company’s primary assets, its License and associated rights and permits, and the material estimated costs associated with the Company advancing the ICSID Arbitration. On the basis of the Company’s balance of cash and cash equivalents as at December 31, 2016, the Company has sufficient funding to satisfy the budgeted costs of the planned long-term ICSID Arbitration activities currently projected to see it through to its conclusion. Management continues to review the Company’s activities in order to identify areas to rationalize expenditures.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future.

The Company’s registered address is Suite 200 – 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 1Z4. The Company receives significant management services from its wholly-owned subsidiary, RM Gold (Services) Ltd. (“RMGS”). The principal place of business for RMGS is 1 Central Court, 25 Southampton Buildings, London WC2A 1AL, 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 29, 2017.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

3. Basis of preparation

The consolidated financial statements are prepared according to the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

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 or were part of the Group during the year ended December 31, 2016:

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
Roşia Montană Gold Corporation S.A.	80.69%	Romania	Romanian leu
Rom AUR SRL	100%	Romania	Romanian leu
NFI Gabriel Finance S.A.	100%	Romania	Romanian leu

During 2016 Rom AUR SRL, a subsidiary of Gabriel Resources (Netherlands) B.V., was dissolved and therefore no longer forms part of the Group.

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 20.

5. Critical accounting estimates, risks and uncertainties

The Company performed an analysis of risk factors which, if any should materialize, could materially and adversely affect the results of operations and financial position of the Company.

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 liabilities, if any, at the date of the consolidated 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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

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. The depreciation rates for each asset class are as follows:

Asset Class	Depreciation method
Vehicles	5 years, straight line basis
Office equipment	2 - 5 years, straight line basis
Leasehold improvements	Over term of lease, straight line basis
Buildings	50 years, straight line basis
Property plant and equipment in construction	Not depreciated until brought into 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.

Exploration and evaluation costs

Exploration and evaluation costs are expensed as exploration costs in the Consolidated Income Statement 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

After completion of the technical feasibility study, subsequent exploration and development expenses, engineering expenditures to design the size and scope of the Project, environmental assessment and permitting, rescue archaeology, surface rights acquisitions, consultancy costs and other expenditures, including corporate costs directly related to the advancement of Project permitting were also capitalized in mineral properties. However since the impairment in December 31, 2015 these expenses no longer meet the criteria for capitalization under the Company's accounting policy, and are now recognized in the Consolidated Income Statement.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

6. Significant accounting policies (continued)

Impairment of non-financial assets

Non-financial assets to be held and used by the Group are reviewed for indicators of impairment whenever events or 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 assessed for indicators of impairment at the end of each reporting period. 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 of disposal ("FVLCD") and its value in use ("VIU"), which is the present value of the future cash flows expected to be derived from an asset.

Impairment losses for non-financial assets or cash generating units are reversed if evidence exists of an indicator of that reversal, and there has been a consequent change in the estimates used to determine the asset's 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 since the last impairment loss was recognized.

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 the passage of time is recognized as a finance cost.

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

At December 31, 2016 the Group has not incurred and is not deemed to have committed to any provisions for environmental restoration 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 the Company is the Canadian Dollar. The functional currency of each of the Company's subsidiaries 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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

6. Significant accounting policies (continued)

(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).

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: The debt component of the convertible notes, trade payables, accruals and other payables are classified as financial liabilities at amortized cost. The debt component of the convertible notes, 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 these items 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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

6. Significant accounting policies (continued)

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 this has not been considered in the loss per share calculation.

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 the end of each reporting period, 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 Income Statement and Consolidated Statement of Comprehensive Income in 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 may receive certain compensation in the form of DSUs in lieu of cash. On retirement or departure from the Company participants may, at their discretion, redeem their DSUs for common shares of the Company (“Common Shares”), cash, or a combination of Common Shares and cash. 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. If the holder elects to settle the DSU in cash then the Company, at its sole discretion, can elect to pay the amount in Common Shares.

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, at their discretion if not agreed otherwise, redeem their RSUs for Common Shares, cash, or a combination of Common Shares and cash.

Share-based compensation relating to DSUs and RSUs is calculated based on the quoted market value of the Common Shares and charged to the Consolidated Income Statement and Consolidated Statement of Comprehensive Income in the Consolidated Statement of Financial Position. The compensation cost and liability is adjusted each reporting period for changes in the underlying share price.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

6. Significant accounting policies (continued)

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, when recognized, are presented as non-current in the Consolidated Statement of Financial Position.

Lease payments

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

Accounting standards and amendments

There are no new standards, amendments to standards, or IFRIC interpretations that are effective for the first time for the financial year ended December 31, 2016 and applicable to the Company's operations.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017, and have not been applied in preparing these consolidated financial statements. Management has not yet concluded as to the impact on the Group. The standards being reviewed that are relevant to the Group are:

- IFRS 9 - Financial Instruments. Replacement standard for IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 retains (and simplifies) the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. This standard is mandatory effective from January 1, 2018.
- IFRS 16 – Leases. In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

7. Corporate General and Administrative expenses

<i>in thousands of Canadian dollars</i>	December 31 2016	December 31 2015
Finance	836	575
External communications	157	156
Information technology	362	145
ICSID Arbitration related	8,768	6,132
Legal	621	248
Payroll	6,681	3,198
Long lead-time equipment storage costs	922	-
Other	1,086	1,025
Corporate, general and administrative expense	19,433	11,479

ICSID Arbitration related costs are in respect of legal and other services provided to the Company in respect of the ICSID Arbitration.

Payroll costs in the year ended December 31, 2016 include a net \$3.6 million related to RMGC employees, after taking into account the effect of the reversal of the provision for long service awards and other benefits totalling \$1.1 million.

Prior to December 31, 2015, the costs of storage and routine maintenance for the long lead-time equipment were capitalized to mineral properties. Since the 2016 review of capitalization criteria, such expenditures are recorded as corporate, general and administrative expense.

8. Assets held for sale

	December 31 2016
Balance - December 31, 2014	-
Transfer from construction in progress	19,646
Balance - December 31, 2015	19,646
Disposal	(1,375)
Impairment charge	(3,856)
Currency translation adjustment	(998)
Balance - December 31, 2016	13,417

Due to the combination of the status of the Project permitting and the ICSID Arbitration, the prospect of the long lead-time equipment being used in the future for the purpose for which it was purchased is considered remote. In December 2015, the Company engaged two specialist agents to broker the sale of the long lead-time equipment. In August 2016, a gyratory crusher was sold for gross proceeds of \$2.6 million. The agents' engagement is ongoing, with a view to a sale of the remaining equipment in the short-term.

At December 31, 2016, the value of the long-lead time equipment was assessed for indicators of impairment, and a charge of \$3.9 million was recognised in the income statement for the year.

The remaining long lead-time equipment comprises milling equipment, which is not yet assembled. These items are currently stored in various warehouse locations which, with non-material exceptions, are outside of Romania, the main location being the port of Antwerp, Belgium. The storage is in accordance with the original manufacturers' and current insurer's recommended storage requirements. The long lead-time equipment was transferred to assets held for sale on December 31, 2015.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

9. Cash and cash equivalents and restricted cash

	December 31 2016	December 31 2015
Cash at bank and on hand	6,143	4,070
Short-term bank deposits	54,124	14,497
Cash and cash equivalents	60,267	18,567
Restricted cash	506	533
	60,773	19,100

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates. Cash is readily accessible and is deposited at reputable financial institutions with high 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, 2016, the Group held \$0.1 million equivalent in Romanian banks (2015: \$0.6 million).

Short-term bank deposits represent investments in US and Canadian 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 one of which was a former supplier to RMGC. The restricted amount represents the value of the goods procured from the supplier during 2012. RMGC continues to challenge the legality of the restriction and to cooperate fully with the Ploiesti prosecutor's office.

10. Trade and other receivables

	December 31 2016	December 31 2015
Trade and other receivables	309	17
VAT and sales taxes	287	100
	596	117

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

	December 31 2016	December 31 2015
UK pound sterling	9	22
Canadian dollar	4	-
Romanian leu	583	95
	596	117

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

11. Property, plant and equipment

	Office equipment	Building	Vehicles	Leasehold improvements	Construction in progress ⁽¹⁾	TOTAL
COST						
Balance - December 31, 2014	4,322	3,194	1,080	297	50,459	59,352
Additions	67	-	43	6	22	138
Reclassifications	-	(127)	-	-	127	-
Disposals	(132)	(81)	(72)	-	(1,356)	(1,641)
Currency translation adjustment	206	204	70	-	3,382	3,862
Impairment charge	-	-	-	-	(32,988)	(32,988)
Transfer to assets held for sale	-	-	-	-	(19,646)	(19,646)
Balance - December 31, 2015	4,463	3,190	1,121	303	-	9,077
Additions	54	-	-	-	-	54
Disposals	(15)	-	(32)	-	-	(47)
Currency translation adjustment	62	(209)	119	-	-	(28)
Impairment charge	(1,373)	(2,833)	-	-	-	(4,206)
Balance - December 31, 2016	3,191	148	1,208	303	-	4,850
ACCUMULATED DEPRECIATION						
Balance - December 31, 2014	2,804	109	789	203	-	3,905
Depreciation	166	20	157	100	-	443
Disposals	(92)	-	(41)	-	-	(133)
Currency translation adjustment	115	9	55	-	-	179
Balance - December 31, 2015	2,993	138	960	303	-	4,394
Depreciation	180	21	82	-	-	283
Disposals	-	-	-	-	-	-
Currency translation adjustment	(81)	(11)	116	-	-	24
Balance - December 31, 2016	3,092	148	1,158	303	-	4,701
CARRYING AMOUNT						
At December 31, 2014	1,518	3,085	291	94	50,459	55,447
At December 31, 2015	1,470	3,052	161	-	-	4,683
At December 31, 2016	99	-	50	-	-	149

⁽¹⁾ Amounts included in construction in progress are not subject to amortization. These assets were transferred to assets held for sale in 2015, as described in Note 8.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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12. Impairment of mineral properties and property plant and equipment

In accordance with the Group's accounting policy, assets are tested for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable.

At December 31, 2015, the Company assessed the mineral properties and other long-lived assets for indicators of impairment and concluded that the continued uncertainty regarding the development of the Project and the progression of the ICSID Arbitration, including that the Company had been unable to reach an amicable resolution with Romania regarding the dispute and the appointment by the Romanian State of lawyers to defend the ICSID Arbitration, represented indicators of impairment that required a determination to be made of the Project's recoverable amount.

The recoverable amount relating to mineral properties was determined as nil, based on both the fair value less costs of disposal ("FVLCD") and value in use ("VIU") methods. The FVLCD is considered to be nil on the basis that no other market participant would likely be able to progress the Project in the face of the ICSID Arbitration and the current political environment in Romania. A market approach was used in estimating the FVLCD as an income approach would not be considered to provide a reliable estimate of fair value. The VIU of the Project was also considered to be nil due to the probability of resolving the dispute with the Romanian State, and therefore the likelihood of the Project being developed, being now considered to be remote, and therefore no future positive cash flows can be expected to be generated.

In respect of the resettlement site development costs, which were work-in-progress assets yet to be transferred to mineral properties, a full impairment was recorded consistent with the treatment of mineral properties.

As at December 31, 2015, all of the Group's long lead-time equipment was classified as held for sale. A market approach was also used in estimating the FVLCD of the Group's long lead-time equipment. Based on initial market valuation indications from specialist intermediaries, whilst acknowledging the limited market for large engineering equipment, the Company recorded a \$33.0 million impairment of its long lead-time equipment as at December 31, 2015, and classified these assets as held for sale within the Consolidated Statement of Financial Position, as described in Note 8.

At December 31, 2016, the Company again assessed fixed assets for indicators of impairment. The remaining land and buildings, and the majority of the other office equipment owned by RMGC in the Project area were tested for impairment. Due to the progression of the ICSID Arbitration, the likelihood of any value being realized in the disposal of these assets is now remote. Save for certain office equipment and vehicles, the residual value of these assets is now considered by the Company to be zero, and the balance has been written down accordingly.

In the event that the prospects for the development of the Project are enhanced in the future, an assessment of the recoverable amount of the Project will be performed at that time, which may lead to a reversal of part or all of the impairment that has been recognized in the current and previous year.

13. Trade and other payables

	December 31	December 31
	2016	2015
Trade payables	348	704
Payroll liabilities	713	647
Accrued expenses	2,314	1,244
	3,375	2,595

Included in accrued expenses are \$2.0m of ICSID Arbitration related accruals (2015: \$0.7m). This increase is due to the increase in ICSID Arbitration activities and related fees following the formation of the Tribunal in mid-2016.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

13. Trade and other payables (continued)

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

	December 31 2016	December 31 2015
UK pound sterling	87	164
Canadian dollar	167	199
United States dollar	1,587	497
Euro	402	349
Romanian leu	1,132	1,386
	3,375	2,595

14. Resettlement liabilities

RMGC previously had a program for purchasing homes in the Project area. 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 new resettlement site option, the Company recorded a resettlement liability for the anticipated construction costs of the resettlement houses. As a result of the delay in delivery of some 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 resettlement contracts. The remaining penalty amount in the resettlement contract is also recorded within resettlement liabilities.

During the second quarter of 2016, the Company closed out one resettlement contract through the provision of an alternate home that RMGC owned in Roşia Montană, reducing the year end accrued resettlement liabilities to \$0.7 million (December 31, 2015: \$1.2 million).

15. Other liabilities

DSUs

	DSUs (000's)	Price per common share (dollars)	Value
Outstanding - December 31, 2014	1,113	0.40	445
Granted	727	0.33	243
Change in fair value			(431)
Balance - December 31, 2015	1,840	0.14	257
Granted	701	0.24	166
Settled	(255)	0.65	(165)
Cancelled	(1)	0.65	(1)
Change in fair value			954
Balance - December 31, 2016	2,285	0.53	1,211

During the year ended December 31, 2016, the Company recorded an expense of \$1.1 million (2015: \$0.2m net reversal). 256,000 DSUs were settled during the year (2015: \$nil).

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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15. Other liabilities (continued)

The Company has a DSU Plan under which qualifying participants can elect to receive certain compensation in the form of DSUs. With effect from July 1, 2016, certain Company directors will receive fifty per cent of their director fees payable in DSUs. DSUs are initially valued at the five-day weighted average market price of the Company's common shares at the date of issue, with the value adjusted based on fair value on the closing common share price at the end of each subsequent reporting period.

During the year ended December 31, 2016, the Company's share price increased significantly, and accordingly an increase of \$0.8 million has been recorded in the DSU liability in line with the fair value calculation outlined above.

(b) RSUs

	RSUs (000's)	Price per common share (dollars)	Value
Outstanding - December 31, 2014	225	0.40	90
Amortized ⁽¹⁾	161	0.65	107
Settled	(207)	0.36	(77)
Change in fair value			(95)
Outstanding - December 31, 2015	179	0.14	25
Amortized ⁽¹⁾	28	0.56	16
Settled	(207)	0.23	(49)
Change in fair value			8
Balance - December 31, 2016	-	-	-

⁽¹⁾ The Company had granted certain RSUs with vesting conditions. The expense associated with these issuances is amortized over the determined vesting period.

The Company has an RSU Plan under which qualifying participants may receive a portion of their compensation in the form of RSUs. Upon vesting participants may, at their election unless agreed otherwise, redeem their RSUs for Common Shares, cash, or a combination of Common Shares and cash. RSUs are measured and accounted for in the same way as DSUs. There are currently no RSUs outstanding.

During the year ended December 31, 2016, the Company recorded an expense of \$nil (2015: \$nil) of share based compensation expense related to RSUs. RSUs settled during the year, for cash, amounted to \$0.05 million (2015: \$0.08 million).

	December 31 2016	December 31 2015
Deferred share units	1,211	257
Restricted share units	-	25
Fidelity bonus and other benefits	-	1,251
Total other liabilities	1,211	1,533

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

15. Other liabilities (continued)

Other liabilities are disclosed as:

	December 31 2016	December 31 2015
Current liabilities - Other liabilities	1,211	388
Non-current liabilities - Other liabilities	-	1,145
Total other liabilities	1,211	1,533

The criteria for the recognition of the fidelity bonus as a liability were evaluated during 2016. It was concluded that as a consequence of the expiry and non-renewal of the collective bargaining agreement between RMGC and its employees, there is no ongoing liability to support the carrying value of the provision and, consequently, the balance has been reversed at December 31, 2016.

16. Private placements

On July 14, 2016 the Company completed a private placement with one existing shareholder and a new investor (the "July 2016 Private Placement"). A total of 40,625 units were issued at a price of \$1,000 per unit to raise aggregate gross proceeds of \$40.625 million. Each unit consists of:

- \$1,000 principal amount of convertible, subordinated, unsecured notes with a coupon of 0.025% (the "July 2016 Notes"). The July 2016 Notes mature on June 30, 2021 and are convertible at any point prior to maturity, at the option of the holder, into common shares of the Company at a conversion price of \$0.3105 per common share;
- 1,610 common share purchase warrants (the "July 2016 Warrants"), each of which entitles the holder to purchase one common share of the Company at a price of \$0.46 at any time prior to June 30, 2021; and
- one arbitration value right, which entitles the holder, subject to certain limitations and exclusions, to a pro-rata proportion of up to 5.54% (capped at an aggregate of \$129.3 million) of any amounts received by the Group pursuant to any settlement or arbitral awards irrevocably made in favor of the Group.

On May 11, 2016 the Company completed a private placement with a number of existing shareholders (the "May 2016 Private Placement" and together with the July 2016 Private Placement, the "2016 Private Placements"). A total of 20,000 units were issued at a price of \$1,000 per unit to raise aggregate gross proceeds of \$20.0 million. Each unit consists of:

- \$1,000 principal amount of convertible, subordinated, unsecured notes with a coupon of 0.025% (the "May 2016 Notes"). The May 2016 Notes mature on June 30, 2021 and are convertible at any point prior to maturity, at the option of the holder, into common shares of the Company at a conversion price of \$0.3105 per common share;
- 1,610 common share purchase warrants (the "May 2016 Warrants"), each of which entitles the holder to purchase one common share of the Company at a price of \$0.46 at any time prior to June 30, 2021; and
- one arbitration value right, which entitles the holder, subject to certain limitations and exclusions, to a pro-rata proportion of up to 7.5% of any amounts received by the Group pursuant to any settlement or arbitral awards irrevocably made in favor of the Group. This liability is capped at an aggregate of \$175 million, distributable between all AVRs issued by the Company pursuant to the private placement completed in May 2014, described below, together with the May 2016 private placement.

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16. Private placements (continued)

On May 30, 2014 the Company completed a private placement with a number of existing shareholders (the “2014 Private Placement”). A total of 35,000 units were issued at a price of \$1,000 per unit to raise aggregate gross proceeds of \$35.0 million. Each unit consisted of \$1,000 principal amount of convertible, subordinated, unsecured notes, 398 common share purchase warrants and one arbitration value right. In conjunction with the closing of the May 2016 Private Placement, certain terms of the 2014 Private Placement were restructured to bring them into alignment with the May 2016 Private Placement, including a reduction in the coupon from 8% to 0.025% and the share purchase price of the warrants (the “Restructuring”). This change was effective as of January 1, 2016 with a waiver for any and all rights in respect of interest that had previously been accrued at a rate of 8% since January 1, 2016.

The change to the terms of the 2014 Private Placement pursuant to the Restructuring has been accounted for as an extinguishment rather than a modification, as required under IFRS. On extinguishment, a debt extinguishment charge of \$4.2 million was recognized in 2016 as a non-cash expense in the income statement. Further, deferred financing costs of \$0.2 million, capitalized in 2014, and financing costs of \$0.1 million related to the extinguishment were recognized in 2016 as an expense in the income statement.

The July 2016 Private Placement is accounted for as a compound financial instrument. Due to the increase in the share price during the period between announcement and finalization of the transaction documentation and closing, both the warrants and the convertible component of the July 2016 Private Placement were in the money at the time of issue. Consequently, the ‘residual value’ method used for the 2014 Private Placement and May 2016 Private Placement is not applicable to the July 2016 Private Placement. The debt and equity components of the July 2016 Notes, a compound financial instrument, were initially recorded at fair value at the commitment date (the date of the subscription agreements). The July 2016 warrants were initially recorded at the fair value as at the closing date of the July 2016 Private Placement. The valuation of the equity components has resulted in a non-cash loss on recognition of \$34.4 million being recognized in the income statement in the year ended December 31, 2016. Any directly attributable transaction costs were allocated to the liability and equity components in proportion to their initial carrying amounts.

The 2014 Private Placement and May 2016 Private Placement are also accounted for as compound financial instruments. The debt component of the compound financial instruments was recognized initially at fair value of a similar liability that does not have an equity conversion option. The warrants were recorded at fair value. Using the ‘residual value’ method, the equity component was recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt and warrant components. Any directly attributable transaction costs were allocated to the liability and equity components in proportion to their initial carrying amounts.

The key inputs used in determining the value of the July 2016 Notes and July 2016 Warrants in the July 2016 Private Placement set out in these consolidated financial statements are as follows:

- Discount rate 12.5%
- Volatility (based on historic 23 month volatility adjusted for the S&P/TSX Mining Index volatility) 66.5%
- Remaining life (years) 5.0

The key inputs used in determining the value of the May 2016 Notes and May 2016 Warrants in the May 2016 Private Placement and 2014 Private Placement set out in these consolidated financial statements are as follows:

- Discount rate 12.5%
- Volatility (based on historic 23 month volatility) 98.0%
- Remaining life (years) 5.0

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16. Private placements (continued)

July 2016 Private Placement – Initial recognition

	allocation	fees	allocation
Liability component of convertible debentures	22,740	394	22,346
Equity component of convertible debentures	32,694	567	32,127
Warrants	19,557	339	19,218
Charge on issue of in-the-money equity instruments	(34,366)	-	(34,366)
Arbitration value rights	-	-	-
Proceeds of private placement	40,625	1,300	39,325

May 2016 Private Placement – Initial recognition

	Gross allocation	Financing fees	Net allocation
Liability component of convertible debentures	11,118	67	11,051
Equity component of convertible debentures	4,149	25	4,124
Warrants	4,733	28	4,705
Arbitration value rights	-	-	-
Proceeds of private placement	20,000	120	19,880

2014 Private Placement – Recognition subsequent to the debt extinguishment

	Gross allocation	Financing fees	Net allocation
Liability component of convertible debentures	18,347	-	18,347
Equity component of convertible debentures	8,370	50	8,320
Warrants	8,283	50	8,233
Arbitration value rights	-	-	-
Proceeds of private placement	35,000	100	34,900

Subsequent to initial measurement, the debt component is measured at amortized cost using the effective interest rate method. The valuation of the equity component is not adjusted subsequent to the initial recognition except on conversion or expiry.

There are two derivatives that are embedded within the convertible notes to the 2014 Private Placement, the May 2016 Private Placement and the July 2016 Private Placement: a ‘make-whole premium’ to protect holders of the convertible notes in a change of control event prior to maturity; and a ‘common share repayment right’ providing the Company with the right to repay the principal in Common Shares at a discounted amount of 95% of par at maturity. These two embedded derivatives were determined to have insignificant initial values and were accordingly not accounted for, but will be reassessed at each reporting date.

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16. Private placements (continued)

The aggregate composition of the three Private Placements is set out in the following table

	Gross allocation	Financing fees	Net allocation
Liability component of convertible debentures	52,205	461	51,744
Equity component of convertible debentures	45,213	642	44,571
Warrants	32,573	417	32,156
Charge on issue of in-the-money equity instruments	(34,366)	-	(34,366)
Proceeds of private placement	95,625	1,520	94,105

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

	December 31 2016	December 31 2015
Salaries and other short-term employee benefits	1,483	1,663
Directors' fees	338	527
DSUs and RSUs ⁽¹⁾	179	318
Share options ⁽¹⁾	545	811
Total	2,545	3,319

⁽¹⁾ DSUs, RSUs and share options granted to key Management and non-executive directors are fair valued at the grant date and at each subsequent reporting date

- (b) Related party transactions with Minvest are disclosed in Note 20.

18. Share capital

Authorized:

Unlimited number of common shares without par value

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

Issued:

	Number of shares (000's)	Amount
Balance - December 31, 2014	384,145	868,081
Shares issued on the exercise of share options	5	3
Transfer from contributed surplus - exercise of share options	-	2
Balance - December 31, 2015	384,150	868,086
Shares issued on the exercise of share options	36	17
Shares issued on the exercise of DSUs	255	165
Transfer from contributed surplus - exercise of share options	-	11
Balance - December 31, 2016	384,441	868,279

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19. 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 to directors, officers, employees and consultants. The exercise price of the options is determined as the five-day weighted average closing price of the Common Shares prior to the grant date of the option. The majority of options granted vest over three years and are exercisable over five years to ten 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 at any point in time.

As at December 31, 2016 common share options held by directors, officers, employees and consultants are as follows:

Range of exercise prices (dollars)	Outstanding			Exercisable		
	Number of options (thousands)	Weighted average exercise price (dollars)	Weighted average remaining contractual life (years)	Number of options (thousands)	Weighted average exercise price (dollars)	Weighted average remaining contractual life (years)
0.40 - 0.75	13,370	0.46	7.8	4,670	0.50	5.0
0.76 - 1.00	9,640	0.81	2.0	9,468	0.81	2.0
1.01 - 1.92	3,735	1.81	0.9	3,735	1.81	0.9
	26,745	0.77	4.8	17,873	0.94	2.5

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 achievement of milestones (the “measurement date”), the fair value of these options is amortized using graded vesting over the anticipated vesting period.

Certain 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 Income Statement.

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, 2014	28,640	3.34
Options granted	5,525	0.40
Options forfeited	(375)	7.27
Options expired	(8,057)	6.51
Options exercised	(5)	0.56
Balance - December 31, 2015	25,728	1.66
Options granted	4,961	0.46
Options forfeited	(360)	2.14
Options expired	(3,548)	6.62
Options exercised	(36)	0.46
Balance - December 31, 2016	26,745	0.77

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19. Common share options (continued)

During the year ended December 31, 2016, 5.0 million options were granted at a weighted average exercise price of \$0.46, of which 4.4 million vest on a milestone basis and the remaining 0.6 million vest over a three-year period. During the year ended December 31, 2015, 5.5 million options were granted at a weighted average exercise price of \$0.40, of which 2.5 million vest on a milestone basis and the remaining 3.0 million vest over a three-year period.

The valuation of the common share options granted was calculated using a Black-Scholes valuation model with the following assumptions:

	December 31	December 31
	2016	2015
Weighted average risk-free interest rate	1.00%	1.05%
Volatility of share price	107%	94%
Weighted average life of options (years)	4.4	6.7
Pre-vesting forfeiture rate	20%	10%
Weighted average fair value of awards (\$)	0.34	0.31

As of December 31, 2016, the remaining fair value of options to be expensed is \$1.6 million (2015: \$1.4 million). Prior to 2016, amounts relating to options granted to employees of RMGC were capitalized to Mineral Properties, but since the 2015 impairment all options have been expensed. During the year this expense is as follows:

	December 31	December 31
	2016	2015
Expensed	1,003	654
Capitalized	-	359

20. Non-controlling interest

	Rosia Montană Gold Corporation S.A.
Balance - December 31, 2014	15,067
Currency translation adjustment	8,967
Loss for the year	(19,922)
Balance - December 31, 2015	4,112
Currency translation adjustment	(221)
Loss for the year	-
Balance - December 31, 2016	3,891

The Company has historically advanced loans totaling US\$39.5 million to Minvest RM, the non-controlling shareholder of RMGC, to facilitate mandatory statutory share capital increases in RMGC in accordance with Romanian company law rules on capitalization. These loans, which remain outstanding at December 31, 2016, are non-interest bearing and according to their terms 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, accordingly, have been set-off against non-controlling interests in the Consolidated Statement of Financial Position. The loans and non-controlling interest components will be reflected individually at such time as repayment of the loans is made possible.

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 Minvest RM, 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. This transfer gave rise to the disclosed non-controlling interest and subsequent accounting.

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21. Income taxes

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

	December 31 2016	December 31 2015
Loss before income taxes	71,515	647,754
Income tax rate ⁽¹⁾	30%	30%
Income tax at statutory rates	(21,455)	(194,326)
Tax effects of:		
- Impact of foreign tax rates ⁽²⁾	2,220	88,485
- Non-deductible items / permanent differences	656	155
- Unrecognised deferred tax assets	18,579	105,686
Income tax recovery	-	-

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

⁽²⁾The Company has operations based in Romania, which has a different tax rate to the Canadian statutory rate

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.

	December 31 2016	December 31 2015	Expiry
Losses carried forward	44,947	85,112	2026-2035
Unclaimed share issue cost	1,461	354	No expiry
Capital assets	1,440	1,414	No expiry
Cumulative eligible capital expenditures	13,328	13,328	No expiry
Deductable temporary differences	61,176	100,208	

RM Gold (Services) Ltd has \$4.1 million of unrecognized deductible temporary differences in the United Kingdom (2015: \$4.6 million), with no specified expiry date, to be carried forward for use against future profits.

RMGC has unrecognized temporary differences in Romania of \$691.6 million (2015: \$816.5 million). These differences could give rise to deferred tax assets at a future date. Losses carried forward, which are a component of the deductible temporary differences in Romania, amounted to \$91.8 million (2015: \$121.6 million) and have expiry dates between 2017 and 2022.

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

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	2017	2018	2019	2020	2021	Thereafter
<i>Capital commitments</i>								
Resettlement construction	a	78	78	-	-	-	-	-
<i>Operating lease commitments</i>								
Rosia Montană exploitation license	b	640	256	256	128	-	-	-
Surface concession rights	c	1,153	34	34	34	34	34	983
Lease agreements	d	23	23	-	-	-	-	-
Total commitments		1,894	391	290	162	34	34	983

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For the year ended December 31, 2016

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

22. Commitments and contingencies (continued)

- (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, 2016. The contracts are 'arms-length' agreements with unrelated third parties.
- (b) Under the terms of the License, 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 five year renewal periods.
- (c) RMGC has approximately 40 years remaining on concession agreements with the Local Councils of Roşia 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 approximately \$35,000 (Romanian Leu equivalent).
- (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.

RMGC is acting in a limited number of legal proceedings in which it has been named as a defendant and from which it cannot withdraw, proceedings which principally concern claims related to certain land and resettlement rights, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of Management, materially affect the Company's financial position, results of operations or cash flows. As at December 31, 2016, the Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse impact to the Company's financial position.

23. Loss per share

	December 31 2016	December 31 2015
Loss for the year attributable to owners of the parent	71,515	627,910
Weighted-average number of common shares (000's)		
Basic number of shares	384,274	384,149
Basic and diluted loss per share	\$ 0.19	\$ 1.63

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 loss per share is therefore deemed to be the same as basic loss per share.

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For the year ended December 31, 2016

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24. 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,	2016	2015	2016	2015	2016	2015
Reportable items in the Consolidated Statements of Loss and Comprehensive Loss						
Finance income	-	-	(151)	(207)	(151)	(207)
Finance costs - convertible note accretion	-	-	4,426	3,784	4,426	3,784
Amortization	-	-	314	137	314	137
Reportable segment loss	27,533	643,515	43,982	4,239	71,515	647,754
As at December 31,						
	2016	2015	2016	2015	2016	2015
Reportable segment in Consolidated Statement of Financial Position						
Reportable segment current assets	14,514	20,892	60,289	18,307	74,803	39,199
Reportable segment non - current assets	621	5,175	34	41	655	5,216
Reportable segment liabilities	(1,853)	(3,706)	(59,629)	(31,984)	(61,482)	(35,690)

The Group's non-current assets are predominantly located in various port facilities within the European Union.

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25. 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 and United States sovereign debt. The Group has adopted an investment strategy to minimize its credit risk by investing in sovereign debt (primarily issued by Canada and the United States, 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.

Liquidity risk

The Group has sufficient funds as at December 31, 2016 to settle all current and long-term liabilities. The Company has the option to repay all or a proportion of the principal amount of the Notes outstanding at maturity by issuing Common Shares, as further described in Note 16.

As at December 31, 2016 the Group had no sources of operating cash flows and does not have sufficient cash to fund the development of the Project. However the Group does have sufficient funds to fund the ICSID Arbitration through to its long-term conclusion and, given this is now the main focus of the Group, does not require additional funding for the foreseeable future.

Market risk

(a) Interest rate risk

The Group has significant cash balances and fixed interest rate debt in the form of convertible notes. 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.

The interest rate attributable to the convertible notes is a fixed interest rate for the period of the instrument and is therefore not subject to market fluctuations.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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

25. 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 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 economic and market volatility. The Group currently endeavours to keep the majority of its cash, cash equivalents, and short-term investments in United States dollars and Canadian dollars.

Financial instruments

The Group's financial assets consist of cash and cash equivalents. The Group estimates that their fair values approximate their carrying values. The Group's financial liabilities consist of trade and other payables, resettlement liabilities, and convertible notes (Note 16), which are at amortized cost, and other liabilities which are fair valued through profit and loss (Note 15).

The following table illustrates the classification of the Group's financial instruments, which are measured at fair value on a recurring basis, within the fair value hierarchy as at December 31, 2016:

Financial assets and liabilities at fair value as at December 31, 2016				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	60,773	-	-	60,773
Long lead-time equipment	-	-	13,417	13,417
Other liabilities	(1,211)	-	-	(1,211)
	59,562	-	13,417	72,979

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

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

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

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

The Long lead-time equipment, considered in the level 3 component of other liabilities, was valued according to the opinion of specialist third parties, as described in Note 8.

Sensitivity analysis

As of December 31, 2016, 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, 2016, 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 \$0.6 million.
- The Group holds foreign currency balances, giving rise to exposure to foreign exchange risk. A plus or minus 1% change in exchange rates would affect net income by \$0.3 million.

Notes to Consolidated Financial Statements

For the year ended December 31, 2016

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26. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, fund its planned activities and commitments and retain financial flexibility to respond to unforeseen future events and circumstances. 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, 2016, the Group's debt consisted of the Notes (Note 16) with an original maturity of five years. To safeguard capital the Group invests its surplus cash and cash equivalents in highly liquid, highly rated financial instruments.

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

27. Supplemental cash flow information

	December 31 2016	December 31 2015
(a) Net changes in non-cash working capital		
Operating activities:		
Accounts receivable, prepaid expenses and supplies	175	100
Accounts payable and accrued liabilities	(1,754)	316
Unrealized foreign exchange gain on working capital	(651)	352
	(2,230)	768
Investing activities:		
Accounts receivable, prepaid expenses and supplies	-	58
Accounts payable and accrued liabilities	-	(1,387)
	-	(1,329)
(b) Exploration and development expenditures		
Balance sheet change in mineral properties excluding CTA	-	(8,642)
Decrease in resettlement liabilities	-	(3,056)
Non-cash depreciation and disposal capitalized	-	1,815
Share based compensation capitalized	-	386
Exploration and development expenditures per cash flow statement	-	(9,497)
(c) Cash and cash equivalents is comprised of:		
Cash	6,143	4,070
Short-term investments (less than 90 days) - weighted average interest of 0.45% (2015 - 0.46%).	54,124	14,497
	60,267	18,567

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For the year ended December 31, 2016

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28. Summarized financial information of subsidiary with non-controlling interest

RMGC is the Group's only subsidiary with a non-controlling interest, as summarized further in Note 20. The summarized financial statements of RMGC are as follows:

Summarized statement of financial position

As at December 31	2016	2015
Current assets	15,017	21,280
Non-current assets	4,078	4,640
Total assets	19,096	25,920
Current liabilities	(1,853)	(1,660)
Non-current liabilities	(711,207)	(702,126)
Total liabilities	(713,060)	(703,786)

Summarized statement of comprehensive income

For the year ended December 31	2016	2015
Loss for the year	15,855	632,036
Other comprehensive loss / (income) (Currency translation adjustment)	1,146	(46,437)
Comprehensive loss for the year	17,001	585,599

Summarized statement of cash flows

For the year ended December 31	2016	2015
Net cash utilized by operating activities	(8,210)	(858)
Net cash utilized by investing activities	-	(10,942)
Net cash provided by financing activities	7,811	11,994
Net (decrease) / increase in cash and cash equivalents	(399)	194