

# Gabriel Resources Ltd.: 2016 Third Quarter Report

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London - [Gabriel Resources Ltd.](#) ("Gabriel" or the "Company") announces the publication of its Third Quarter Financial Statements and Management's Discussion and Analysis Report for the period ended September 30, 2016.

## Summary

- On July 14, 2016, the Company completed a non-brokered private placement financing to raise \$40.625 million ("Private Placement") and subsequently appointed Mr. David Kay, a representative of Tenor International & Commercial Arbitration Fund ("Tenor"), to the Board on July 29, 2016.
- The Romanian State continues to block the permitting and implementation of the RoÅ&Yuml;ia MontanÅ&fnof; gold and silver project ("Project") without due process or compensation. Accordingly, the Company's core focus is the progression of its arbitration case against Romania before the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") under applicable treaties for the promotion and protection of foreign investment to which Romania is a party ("ICSID Arbitration").
- The tribunal appointed to hear and determine the ICSID Arbitration ("Tribunal") met in first session with all parties on August 12, 2016. A subsequent in-person hearing was held on September 23, 2016 to consider various requests for provisional measures made by the Company.
- On September 27, 2016 the Company reported that the value added tax assessment ("VAT Assessment") levied on Gabriel's Romanian subsidiary, RoÈ&trade;ia MontanÅ&fnof; Gold Corporation S.A. ("RMGC"), amounting to approximately RON 27 million (approximately \$8.6 million), had been partially quashed and, together with associated interest and penalties in the amount of RON 15.9 million (\$5.1m), was no longer due for payment. However, such decision directed the fiscal authorities to rerun the VAT inspection for the same period using a new inspection team. In the interim period, debt enforcement actions against RMGC have been withdrawn. The new VAT inspection commenced on October 12, 2016.
- RMGC remains subject to an investigation by the Romanian National Agency for Fiscal Administration ("ANAF") which Gabriel considers is abusive in nature and has been initiated by the Romanian authorities in retaliation to the filing of the ICSID Arbitration.
- During Q3 2016, the Group sold a gyratory crusher, originally procured for the Project between 2007 and 2009, for gross proceeds of approximately \$2.6 million and continues, through its agents, to procure the sale of additional long lead-time equipment.
- As at September 30, 2016, the Company held \$66.7 million of cash and cash equivalents.
- The Q3 2016 financial statements reflect an operating loss for the period of \$7.4 million (Q2 2016 \$3.9 million) which, together with debt financing costs and a one-off, non-cash, loss recognition of \$34.4 million to comply with technical accounting rules in respect of the Private Placement, resulted in a loss for the period of \$42.0 million (Q2 2016 (\$8.9 million)).

Jonathan Henry, Gabriel's President and Chief Executive Officer, stated:

"The failure of Romania to engage in the development of a world class mining project at RoÈ&trade;ia MontanÅ&fnof; continues to disappoint Gabriel. The Company has been left with no alternative but to deploy significant resources to pursue the ICSID Arbitration claim against Romania. Despite the abusive and unlawful VAT Assessment levied against RMGC being overturned and rather than address the positive impact that the mine can deliver for Romania, the Romanian State, through its agencies and authorities, is

continuing to commit discriminatory, abusive and arbitrary acts against the Company and its investments. The Company remains fully financed to safeguard its rights and investments in Romania and is thus concentrating its efforts on the progression of the ICSID Arbitration.”

Further information and commentary on the operations and results in the third quarter of 2016 is given below. The Company has filed its Unaudited Condensed Interim Consolidated Financial Statements and Management’s Discussion & Analysis on SEDAR at [www.sedar.com](http://www.sedar.com) and each is available for review on the Company’s website at [www.gabrielresources.com](http://www.gabrielresources.com).

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#### Further Information

#### Status of the ICSID Arbitration

- The ICSID Arbitration seeks compensation for all of the loss and damage suffered by the Company and its wholly-owned subsidiary, Gabriel Resources (Jersey) Ltd. (together “Claimants”), resulting from the Romanian State’s wrongful conduct and its breaches of certain bilateral investment treaties which the Romanian Government has entered into.
- The Tribunal held its first session by teleconference on August 12, 2016 and, on August 26, the Tribunal issued Procedural Order No.1 establishing certain timelines and procedural rules to be followed during the course of the ICSID Arbitration; this included the position of the Tribunal that all hearings would be held in Washington, D.C. The Tribunal is still to issue a final procedural calendar with specific dates for the filing of submissions by the parties and other necessary procedural matters.
- On September 23, 2016, the Tribunal held a hearing to consider requests for certain provisional measures submitted to the Tribunal by the Claimants (the “PM Hearing”). The provisional measures requests related to (i) the use by the Claimants, their counsel and the Tribunal, among others, of certain categories of documents and information considered classified and/or confidential under Romanian law; (ii) various aspects of the VAT Assessment levied against RMGC; and (iii) certain investigations of RMGC being undertaken by ANAF, a Romanian government agency operating under the Ministry of Public Finance, a government department which is also charged with organizing and overseeing Romania’s defense of the ICSID Arbitration, as further described below. The Tribunal did not indicate a timeframe for the issuance of its pending decisions in regard to the matters addressed during the PM Hearing.
- Despite the initiation of the ICSID Arbitration, the Company continues to remain open to engagement with the Romanian authorities in order to achieve an amicable resolution of the dispute. Notwithstanding, Gabriel will continue to protect its rights and investments in Romania, including support to RMGC in respect of any abusive, illegal, or retaliatory conduct by the Romanian authorities and, so far as reasonably practical and desirable, ensuring that existing licenses and permits remain in good standing.

#### RMGC Investigations

- As previously announced by the Company, ANAF raised the VAT Assessment against RMGC in July 2016 demanding the repayment of VAT deductions claimed by RMGC in the period 2011 to 2016.

- In mid-September 2016, ANAF issued a further demand against RMGC in respect of interest and penalties payable on the VAT Assessment in the amount of RON 15.9 million (\$5.1m). RMGC challenged the VAT Assessment and immediately prior to the PM Hearing the Claimants were notified that ANAF had decided to “partially quash” the VAT Assessment. Pursuant to this decision, the Company is advised that neither the VAT Assessment nor the associated interest and penalties are due for payment by RMGC, and that the VAT inspection will be re-run for the same period but using a new inspection team. The debt recovery actions against RMGC that had been initiated by ANAF have accordingly been withdrawn. As of October 12, 2016 a new VAT inspection had commenced.
- In parallel with the VAT Assessment, a separate directorate of ANAF has continued to pursue an ad hoc investigation of a broad range of operational activities and transactions of RMGC over an extensive period spanning 1997 to 2016 (the “ANAF Investigation”). For over twelve months, ANAF has demanded that RMGC provide voluminous amounts of information and explanations in respect of, amongst other matters, transactions with its suppliers and financing transactions of RMGC. Although RMGC is cooperating in good faith with the ANAF Investigation, Gabriel believes that there is no justification for the ANAF Investigation, that the breadth and depth of ANAF’s demands are intentionally abusive, and that it has been initiated in an attempt to harm RMGC and the Claimants in view of the dispute with the Romanian State and the Claimants’ filing of the ICSID Arbitration. Accordingly, the Claimants have brought this matter to the attention of the Tribunal as Gabriel continues to consider that such actions further evidence the discriminatory acts and bad faith conduct of the Romanian authorities with regard to the Company’s investment in Romania.

#### Long Lead-Time Equipment

- Long lead-time equipment comprised of crushing and milling equipment was originally procured by the Group between 2007 and 2009. Since delivery, the long lead-time equipment has been stored in various warehouse locations which, with non-material exceptions, are outside of Romania and are held in accordance with both the original manufacturers’ and current insurer’s recommended storage requirements.
- Due to the combined status of the Project permitting and the ICSID Arbitration the Company recognized an impairment of the long lead-time equipment of \$33.0 million at December 31, 2015, with the remaining book value transferred to assets held for sale.
- During Q3 2016, the Group sold a gyratory crusher for gross proceeds of US\$2.0 million (approx. \$2.6 million) and, after sales commission, recorded a net gain on disposal of \$0.6 million. The Company continues, through its agents, to procure the sale of the additional long lead-time equipment.

#### Liquidity and Capital Resources

##### *Liquidity*

- Excluding cash flows from fundraising activities and those from the sale of long lead-time equipment, the Company’s average monthly cash usage during Q3 2016 was \$1.3 million, including costs in respect of the ICSID Arbitration (Q2 2016 monthly average: \$2.0 million, Q1 2016 monthly average: \$1.5 million). At the third quarter end, accruals for costs in respect of the ICSID Arbitration amounted to \$3.4 million (Q2 2016 \$1.0 million)

##### *Capital Resources*

- Cash and cash equivalents at September 30, 2016 amounted to \$66.7 million, including the \$40.625 million raised from the Private Placement.

#### Financial Performance

- The net loss for the third quarter of 2016 was \$42.0 million, significantly impacted by a one-off, non-cash, loss recognition of \$34.4 million recorded in compliance with technical accounting rules applied to the Private Placement. This charge arises as sizeable increases in the price of gold and global gold/mining indices were reflected in the Company's share price, which increased significantly during the documentation, finalization and closing period for the Private Placement, and resulted in the equity components (the warrants and convertible notes) being in-the-money on the date that the transaction closed (July 14, 2016) relative to the pricing negotiated with the investors and determined in accordance with price protection rules of the Toronto Stock Exchange.

#### Project Development (including Permitting and Litigation)

- The annual meeting of United Nations Educational, Scientific and Cultural Organization ("UNESCO") took place in Paris on October 24 to 26, 2016 where it was confirmed that the "Rosia Montana Mining Cultural Landscape", an area that includes the Project footprint, had been added to the UNESCO World Heritage Site tentative list. Neither Gabriel nor RMGC have been notified of, or consulted on, such matter.
- In the context of the above disclosures concerning the ICSID Arbitration, the lack of Romanian Government engagement on the Project and the change in core focus of the Company, readers are advised to refer to the Annual Information Form of the Company for the year ended December 31, 2015 ("AIF") published on March 29, 2016, for information relating to the status of the Project, the exploitation license ("License") relating thereto, the Company's exploration and development activities in Romania, the Project approval and permitting process, legal proceedings concerning the Project and reported gold and silver resources and reserves. Except as disclosed in the Company's public filings thereafter, there has been no material change in that information from the date of publication of the AIF to the date of this press release. The Company has filed its AIF and 2016 quarterly Management's Discussion & Analysis on SEDAR at [www.sedar.com](http://www.sedar.com) and each is available for review on the Company's website at [www.gabrielresources.com](http://www.gabrielresources.com).

#### About Gabriel

Gabriel is a Toronto Stock Exchange listed Canadian resource company. The Company's principal focus has been the exploration and development of the Roşia Montană gold and silver project in Romania. The Project, one of the largest undeveloped gold deposits in Europe, is situated in the South Apuseni Mountains of Transylvania, Romania, an historic and prolific mining district that since pre-Roman times has been mined intermittently for over 2,000 years. The License for the Project is held by Roşia Montană Gold Corporation S.A., a Romanian company in which Gabriel owns an 80.69% equity interest, with the 19.31% balance held by Minvest Roşia Montană S.A., a Romanian state-owned mining company. It is anticipated that the Project would bring over US\$24 billion (at US\$1,200/oz gold) to Romania as potential direct and indirect contribution to GDP and generate thousands of employment opportunities.

Since the grant of the License in June 1999, the Company has focused substantially all of its management and financial resources on the exploration, feasibility and subsequent development of the Project. Despite the Company's fulfilment of its legal obligations and its development of the Project as a high-quality, sustainable and environmentally-responsible mining project, using best available techniques, Romania has blocked and prevented implementation of the Project without due process and without compensation. Accordingly, the Company's current core focus is the ICSID Arbitration.

For more information please visit the Company's website at [www.gabrielresources.com](http://www.gabrielresources.com).

#### Forward-looking Statements

This press release 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 the Company's operating environment. All statements, other than statements of historical fact, are forward-looking statements.

In this press release, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies that may cause the Company's actual financial results, performance, or achievements to be materially different from those expressed or implied herein. Some of the material factors or assumptions used to develop forward-looking statements include, without limitation, the uncertainties associated with: the ICSID Arbitration, actions by the Romanian Government, conditions or events impacting the Company's ability to fund its operations or service its debt, exploration, development and operation of mining properties and the overall impact of misjudgments made in good faith in the course of preparing forward-looking information.

Forward-looking statements involve risks, uncertainties, assumptions, and other factors including those set out below, that may never materialize, prove incorrect or materialize other than as currently contemplated which could cause the Company's results to differ materially from those expressed or implied by such forward-looking statements. 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.

Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation:

- the duration, required disclosure, costs, process and outcome of the ICSID Arbitration against Romania;
- changes in the liquidity and capital resources of Gabriel, and the group of companies of which it is parent ("Gabriel Group");
- access to funding to support the Gabriel Group's continued ICSID Arbitration and/or operating activities in the future;
- equity dilution resulting from the conversion or exercise of existing securities in part or in whole to Common Shares;
- the ability of the Company to maintain a continued listing on the Toronto Stock Exchange or any regulated public market for trading securities;
- the impact on business strategy and its implementation in Romania of: unforeseen historic acts of corruption, uncertain fiscal investigations; uncertain legal enforcement both for and against the Gabriel Group and political and social instability;
- regulatory, political and economic risks associated with operating in a foreign jurisdiction including changes in laws, governments and legal regimes and interpretation of existing and future fiscal and other legislation ;
- volatility of currency exchange rates, metal prices and metal production;
- the availability and continued participation in operational or other matters pertaining to the Gabriel Group of certain key employees and consultants; and
- risks normally incident to the exploration, development and operation of mining properties.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

Investors are cautioned not to put undue reliance on forward-looking statements, and investors should not infer that there has been no change in the Company's affairs since the date of this press release that would warrant any modification of any forward-looking statement made in this document, other documents

periodically filed with or furnished to the relevant securities regulators or documents presented on the Company's website. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice. The Company disclaims any intent or obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of assumptions or factors, whether as a result of new information, future events or otherwise, subject to the Company's disclosure obligations under applicable Canadian securities regulations. Investors are urged to read the Company's filings with Canadian securities regulatory agencies including Gabriel's Annual Information Form for the year ended December 31, 2015, which can be viewed online at [www.sedar.com](http://www.sedar.com).

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