Gabriel Resources Ltd.

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the period ended September 30, 2016

Condensed Consolidated Statement of Financial Position

As at September 30, 2016 and December 31, 2015

(Unaudited and expressed in thousands of Canadian dollars)

	Notes	**September 30 2016**	December 31 2015
Assets			
Current assets			
Cash and cash equivalents	6	**66,726**	18,567
Trade and other receivables		**578**	117
Prepaid expenses and supplies		**421**	869
Total current assets (excluding assets classified as held for sale)		**67,725**	19,553
Assets classified as held for sale	5	**17,834**	19,646
Total current assets		**85,559**	39,199
Non-current assets			
Restricted cash		**536**	533
Property, plant and equipment		**4,400**	4,683
Total non-current assets		**4,936**	5,216
TOTAL ASSETS		**90,495**	44,415
Liabilities			
Current liabilities			
Trade and other payables	7	**4,694**	2,595
Resettlement liabilities	8	**809**	1,162
Other current liabilities	9	**1,580**	388
Total current liabilities		**7,083**	4,145
Non-current liabilities			
Convertible, subordinated, unsecured notes	16	**54,530**	30,400
Other non-current liabilities		**1,124**	1,145
Total non-current liabilities		**55,654**	31,545
TOTAL LIABILITIES		**62,737**	35,690
Equity			
Share capital		**868,279**	868,086
Other reserves	16	**131,336**	53,843
Currency translation adjustment		**1,981**	2,254
Accumulated deficit		**(977,885)**	(919,570)
Equity attributable to owners of the parent		**23,711**	4,613
Non-controlling interest	10	**4,047**	4,112
TOTAL EQUITY		**27,758**	8,725
TOTAL EQUITY AND LIABILITIES		**90,495**	44,415

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

Condensed Consolidated Income Statement

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

	Notes	3 months ended September 30 **2016**	3 months ended September 30 2015	9 months ended September 30 **2016**	9 months ended September 30 2015
Expenses					
Corporate, general and administrative		**6,594**	3,438	**15,171**	9,043
Severance costs		**-**	28	**38**	542
Share-based compensation		**720**	258	**2,157**	420
Depreciation		**84**	25	**252**	73
Operating loss		**7,398**	3,749	**17,618**	10,078
Other (income) / expense					
Interest received		**(52)**	(31)	**(88)**	(190)
Gain on disposal of assets		**(816)**	-	**(816)**	-
Debt extinguishment charge	16	**-**	-	**4,710**	-
Charge on issue of in-the-money equity instruments	16	**34,366**	-	**34,366**	-
Finance costs: convertible notes accretion	16	**1,494**	939	**2,785**	2,817
Foreign exchange (gain) / loss		**(388)**	(21)	**(260)**	56
Loss for the period attributable to owners of the parent		**42,002**	4,636	**58,315**	12,761
- Owners of the parent		**42,002**	4,630	**58,315**	12,656
- Non-controlling interest		**-**	6	**-**	105
Loss for the period		**42,002**	4,636	**58,315**	12,761
Basic and diluted loss per share	13	**$0.11**	$0.01	**$0.15**	$0.03

Condensed Consolidated Statement of Comprehensive Income

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

	3 months ended September 30 **2016**	3 months ended September 30 2015	9 months ended September 30 **2016**	9 months ended September 30 2015
Loss for the period	**42,002**	4,636	**58,315**	12,761
Other comprehensive loss / (income)				
- may recycle to the Income Statement in future periods				
Currency translation adjustment	**(796)**	(67,974)	**338**	(58,884)
Comprehensive loss / (income) for the period	**41,206**	(63,338)	**58,653**	(46,123)
Comprehensive loss / (income) for the period attributable to:				
- Owners of the parent	**41,206**	(50,218)	**58,588**	(34,857)
- Non-controlling interest	**-**	(13,120)	**65**	(11,266)
Comprehensive loss / (income) for the period	**41,206**	(63,338)	**58,653**	(46,123)

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

Condensed Consolidated Statement of Changes in Shareholders’ Equity

For the nine-month periods ended September 30

(Unaudited and expressed in thousands of Canadian dollars)

	Notes	9 months ended September 30 2016	2015
Common shares			
At January 1		**868,086**	868,081
Shares issued on the exercise of share options		**17**	3
Transfer from contributed surplus: exercise of share options		**11**	2
Shares issued on redemption of DSU's		**165**	-
At September 30		**868,279**	868,086
Other reserves			
At January 1		**53,843**	52,832
Share-based compensation		**777**	111
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 September 30		**131,336**	52,941
Currency translation adjustment			
At January 1		**2,254**	(35,216)
Currency translation adjustment		**(273)**	47,513
At September 30		**1,981**	12,297
Accumulated deficit			
At January 1		**(919,570)**	(291,738)
Loss for the period		**(58,315)**	(12,656)
At September 30		**(977,885)**	(304,394)
Non-controlling interest			
At January 1		**4,112**	15,067
Loss for the period		**-**	(105)
Currency translation adjustment		**(65)**	11,371
At September 30		**4,047**	26,333
Total shareholders' equity at September 30		**27,758**	655,263

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

Condensed Consolidated Statement of Cash Flows

For the nine-month periods ended September 30

(Unaudited and expressed in thousands of Canadian dollars)

		9 months ended September 30	
	Note	**2016**	2015
Cash flows used in operating activities			
Loss for the period		**(58,315)**	(12,761)
Adjusted for the following non-cash items:			
Depreciation		**252**	73
Share-based compensation		**2,157**	420
Gain on disposal of assets		**(816)**	-
Debt extinguishment charge		**4,710**	-
Charge on issue of in-the-money equity instuments		**34,366**	-
Finance costs - convertible note accretion		**2,785**	2,817
Unrealized foreign exchange loss / (gain)		**1,186**	(562)
Cash used in operations		**(13,675)**	(10,013)
DSU/RSU cash settlement		**(16)**	(68)
Changes in operating working capital:		**650**	1,745
		(13,041)	(8,336)
Cash flows provided by / (used in) investing activities			
Exploration and development expenditures		**-**	(7,637)
Purchase of property, plant and equipment		**(35)**	(92)
Proceeds from sale of long lead-time equipment	5	**2,636**	-
Changes in investing working capital		**-**	(941)
		2,601	(8,670)
Cash flows provided by / (used in) financing activities			
Proceeds from issuance of private placement - net of issue costs	16	**59,206**	-
Interest paid on convertible unsecured notes	16	**-**	(1,388)
Proceeds from the exercise of share options		**11**	3
		59,217	(1,385)
Increase / (decrease) in cash and cash equivalents		**48,777**	(18,391)
Effect of foreign exchange on cash and cash equivalents		**(618)**	(54)
Cash and cash equivalents - beginning of period		**18,567**	44,156
Cash and cash equivalents - end of period		**66,726**	25,711

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

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 Roșia Montană gold and silver project (the “Project”) in Romania. The exploitation license for the Project (“License”) is held by Roșia 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 Roșia 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 unaudited condensed, interim, consolidated financial statements (“Condensed 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, in order to ascertain the parties’ agreements and views on certain procedural questions relating to the ICSID Arbitration, with a second hearing held on September 23, 2016.

The approved 2016 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 September 30, 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 a successful conclusion. Management continues to review the Company’s activities in order to identify areas to rationalise expenditures.

These Condensed 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 3T2. The Company receives 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. Basis of preparation

These Condensed Financial Statements for the three-month and nine-month periods ended September 30, 2016, have been prepared in accordance with IFRS as applicable to the preparation of interim financial statements, including International Accounting Standard 34 Interim Financial Reporting. The Condensed Financial Statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS.

The Condensed Financial Statements have been prepared according to the historical cost convention.

The Audit Committee approved these Condensed Financial Statements on November 8, 2016.

3. 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 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. The significant estimates and assumptions are not materially different from those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015, with the exception of the treatment of RMGC expenditures which, since January 1, 2016, no longer meet the requirements of the Company's policy for capitalization as an asset and therefore have been expensed within the interim financial statements.

4. Accounting policies

The material accounting policies followed in these Condensed Financial Statements are the same as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2015, except for the following addition. The Company incurs costs on the refinancing, replacement and re-pricing of its long-term debt and credit facilities. The treatment of these costs is dependent on the assessment of whether the refinancing, replacement or re-pricing was an extinguishment or a modification of the original financial instruments. In the case of an extinguishment, the costs incurred are charged to the income statement whereas in the case of a modification, the costs are capitalized as a part of the existing carrying amount of the financial instrument and amortized to the income statement over the term of the financial instrument using effective interest method. When the terms and conditions of a refinancing, replacement and re-pricing are substantially different, it is generally considered an extinguishment. The assessment requires the exercise of significant judgement involving comparing qualitative and quantitative factors of the credit agreement before and after the refinancing, replacement or re-pricing.

No new IFRS accounting standards have been adopted by the Company during the nine-month period ended September 30, 2016.

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

4. Accounting policies (continued)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these Condensed Financial Statements. Management is assessing the possible impact of these standards and has not yet reached a conclusion 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.

5. Assets held for sale

	September 30 2016
Balance - December 31, 2014	**-**
Transfer from construction in progress	19,646
Balance - December 31, 2015	**19,646**
Disposal	**(1,540)**
Currency translation adjustment	(272)
Balance - September 30, 2016	**17,834**

Due to the combined 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.

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

6. Cash and cash equivalents

As at	**September 30 2016**	December 31 2015
Cash at bank and on hand	**8,778**	4,070
Short-term bank deposits	**57,948**	14,497
	66,726	18,567

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 September 30, 2016, the Group held $0.4 million equivalent in Romanian banks (December 2015: $0.6 million).

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

7. Trade and other payables

As at	**September 30 2016**	December 31 2015
ICSID Arbitration related accruals and payables	**3,354**	841
RMGC accruals and payables	**580**	643
RMGC salaries and related taxes payable	**484**	647
Other payables	**276**	464
	4,694	2,595

Trade and other payables are accounted for at amortized cost and are categorized as other financial liabilities. The increase in ICSID Arbitration related accruals at September 30, 2016 is due to the increase in arbitration related activities following the formation of the Tribunal.

8. 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 Roșia Montană. As a consequence, there was a utilization of accrued resettlement liabilities during the nine-month period ended September 30, 2016, with the total balance reduced to $0.8 million (December 31, 2015: $1.2 million).

9. Other current liabilities

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 nine-month period ended September 30, 2016 the Company's share price increased significantly, and accordingly an increase of $1.2 million has been recorded in the DSU liability in line with the fair value calculation outlined above.

10. Non-controlling interest

The Company 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 September 30, 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 Condensed 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 possible.

In December 2013, the Group was required to recapitalize RMGC in order to comply with Romanian minimum capitalization 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.

11. Related party transactions

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

Historical related party transactions with Minvest RM are disclosed in Note 10. There have been no transactions with Minvest RM in 2016.

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

12. Common share options

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

	Number of options ('000)	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	525	0.65
Options forfeited	(280)	2.49
Options expired	(1,700)	7.54
Options exercised	(36)	0.46
Balance - September 30, 2016	**24,237**	**1.22**

13. Loss per share

	3 months ended September 30		9 months ended September 30	
	2016	2015	**2016**	2015
Loss for the period attributable to owners of the parent	**42,002**	4,630	**58,315**	12,656
Weighted-average number of common shares (000's)	**384,353**	384,150	**384,218**	384,149
Basic and diluted loss per share	**$0.11**	$0.01	**$0.15**	$0.03

14. Commitments and contingencies

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

	Total	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Capital commitments							
Resettlement	80	23	57	-	-	-	-
Operating lease commitments							
Roșia Montană exploitation license	945	270	270	270	135	-	-
Surface concession rights	1,202	34	34	34	34	34	1,032
Property lease agreements	88	88	-	-	-	-	-
Total commitments	**2,315**	**415**	**361**	**304**	**169**	**34**	**1,032**

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

15. Segmental 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 two segments: the first being the Romanian operating company, the principal activity of which was formerly the exploration, evaluation and development of precious metal mining projects in the country ("Romania"). The rest of the entities within the Group form part of a secondary segment ("Corporate").

The segmental report is as follows:

	Romania		**Corporate**		**Total**	
For the three-month period ended September 30,	**2016**	2015	**2016**	2015	**2016**	2015
Reportable items in the Condensed Consolidated Income Statement and Comprehensive Income						
Interest received	-	-	**(52)**	(31)	**(52)**	(31)
Finance costs - convertible note accretion	-	-	**1,494**	939	**1,494**	939
Depreciation	-	-	**10**	25	**10**	25
Reportable segment loss	514	28	**41,488**	4,608	**42,002**	4,636
For the nine-month period ended September 30,	**2016**	2015	**2016**	2015	**2016**	2015
Reportable items in the Condensed Consolidated Income Statement and Comprehensive Income						
Interest received	-	-	**(88)**	(190)	**(88)**	(190)
Finance costs - convertible note accretion	-	-	**2,785**	2,817	**2,785**	2,817
Depreciation	-	-	**32**	73	**32**	73
Reportable segment loss	**38**	542	**58,277**	12,219	**58,315**	12,761
As at September 30,	**2016**	2015	**2016**	2015	**2016**	2015
Reportable segment in Condensed Consolidated Statement of Financial Position						
Reportable segment current assets and assets classified as held for sale	**18,660**	1,366	**66,899**	25,463	**85,559**	26,829
Reportable segment non - current assets	**4,905**	666,328	**31**	68	**4,936**	666,396
Reportable segment liabilities	**(3,087)**	(4,465)	**(59,650)**	(33,497)	**(62,737)**	(37,962)

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

16. Private Placement

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% (capped at an aggregate, which includes all 2014 and May 2016 AVRs issued by the Company, of $175 million) of any amounts received by the Group pursuant to any settlement or arbitral awards irrevocably made in favor of the Group.

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. 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% (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 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 the three-month period ended June 30, 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 the three-month period ended September 30, 2016 as an expense in the income statement.

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

16. Private Placement (continued)

The 2014 Private Placement and May 2016 Private Placement are 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 July 2016 Private Placement is also accounted for as a compound financial instrument. Due to the increase in the share price during the period 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 loss on recognition of $34.4 million being recognized in the income statement in the quarter ending September 30, 2016. 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 Notes and Warrants in the May 2016 Private Placement and 2014 Private Placement set out in these Condensed Financial Statements are as follows:

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

The key inputs used in determining the value of the Notes and Warrants in the July 2016 Private Placement set out in these Condensed 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

July 2016 Private Placement – Initial recognition

	Gross allocation	Financing fees	Net allocation
Liability component of convertible debentures	22,740	394	22,346
Equity component of convertible debentures	32,695	566	32,129
Warrants	19,556	339	19,217
Charge on issue of in-the-money equity instruments	(34,366)	-	(34,366)
Arbitration value rights	-	-	-
Proceeds of private placement	40,625	1,299	39,326

(Unaudited, tabular amounts in thousands of Canadian dollars, unless otherwise stated)

16. Private Placement (continued)

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.

17. Contingent liabilities

During 2016, RMGC has been subject to inspection by the Romanian tax authorities ("ANAF") into the value added tax ("VAT") deductions it claimed in the period 2011 to 2015. The first formal inspection resulted in a tax assessment of RON 27 million (approximately $8.6 million) being communicated to RMGC in July 2016. Further to the assessment, in mid-September 2016, ANAF issued a further demand for RON 15.9 million ($5.1m) in interest and penalties. Following the challenges put forward by the Group, and immediately prior to the Tribunal hearing of September 23, 2016, the Group was notified that the General Directorate for the Settlement of Challenges, a division of ANAF, had decided to partially quash the tax assessment and to rerun the VAT inspection for the same period but using a new inspection team. The Company is advised that the previous assessment and the associated interest and penalties is no longer due for payment. The latest VAT inspection by ANAF started on October 12, 2016 and the Company is currently awaiting the outcome. Due to advice received and challenges put forward by the Group through various formal processes, the Company considered that the outflow of economic resources in respect of the assessment was not probable, and consequently no liability was recognized at June 30, 2016.