

GOLD RESERVE INC  
Form 10-K/A  
April 30, 2012

**United States**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

(Amendment No. 1)

**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended: December 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number: **001-31819**

**GOLD RESERVE INC.**

(Exact name of Registrant as specified in its charter)

**Yukon Territory, Canada**

**NA**

(Jurisdiction of incorporation or organization)

(I.R.S. Employer

Identification No.)

**926 West Sprague Avenue, Suite 200, Spokane, Washington**

**99201**

(Address of principal executive offices)

Zip Code

**(509) 623-1500**

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(Registrant's Telephone, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<b>Class A common shares, no par value per share</b>	<b>The TSX Venture Exchange – Tier 2</b>
<b>Preferred share purchase rights</b>	<b>NYSE Amex</b>

Securities registered or to be registered pursuant to Section 12(g) of the Act: (Title of Class) **None**

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  
 No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.  
 Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
 Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

Aggregate market value of the voting and non-voting common equity (which consists of Class A Common Shares and Equity Units) held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter), computed by reference to the closing sale price of the registrant's common stock on the NYSE Amex on such date (\$2.53): \$82,331,384. As of March 14, 2012, 59,746,472 Class A common shares, no par value per share, and 500,236 Class B common shares, no par value per share, were issued and outstanding.



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## EXPLANATORY NOTE

The purpose of this Annual Report on Form 10-K/A is to amend Part III, Items 10 through 14 of Gold Reserve Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the U.S. Securities and Exchange Commission (the "SEC") on March 15, 2012 (the "2011 10-K"), to include information previously omitted from the 2011 10-K in reliance on General Instruction G to Form 10-K, which provides that registrants may incorporate by reference certain information from a definitive proxy statement filed with the SEC within 120 days after the end of the fiscal year.

The Company determined as of June 30, 2011 (the last business day of its most recently completed second fiscal quarter), that less than 50 percent of its outstanding voting securities were directly or indirectly held of record by residents of the United States. Because the share ownership percentage of United States residents of the Company is

less than 50% and the Company is organized under the laws of the Yukon Territory, the Company is a “foreign private issuer” pursuant to Rule 3b-4 under the Securities Exchange Act of 1934, as amended. The Company previously reported as a foreign private issuer for many years prior to its annual report on Form 10-K for the fiscal year ended December 31, 2009, as during 2009 its shareholder composition changed such that more than 50 percent of its outstanding voting securities were directly or indirectly held of record by residents of the United States. Now that the Company’s United States resident ownership ratio has returned below 50 percent, the Company will return to foreign private issuer reporting for administrative ease and as a cost-savings measure.

Foreign private issuers are not required to file definitive proxy statements with the SEC pursuant to Regulation 14A. Instead, we will furnish a copy of our Canadian Proxy Statement/Information Circular to the SEC under cover of Form 6-K. Because furnished documents cannot be incorporated by reference, the reference on the cover of the Annual Report on Form 10-K to the incorporation by reference of the registrant’s definitive proxy statement into Part III of the Annual Report has been deleted. Further, for purposes of this Annual Report on Form 10-K/A, and in accordance with Rule 12b-15 under the Exchange Act, Items 10 through 14 of our 2011 10-K have been amended and restated in their entirety. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K on March 30, 2012 and no attempt has been made in this Annual Report on Form 10-K/A to modify or update other disclosures as presented in the 2011 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-K.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Annual Report on Form 10-K/A.

### **Cautionary Statement Regarding Forward-Looking Statements**

The information presented or incorporated by reference in this Annual Report on Form 10-K/A contains both historical information and forward-looking statements (within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Securities Act (Ontario)) that may state our intentions, hopes, beliefs, expectations or predictions for the future.

In this report, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us 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.

Forward-looking statements involve risks and uncertainties, as well as assumptions that may never materialize, prove incorrect or materialize other than as currently contemplated which could cause our results to differ materially from those expressed or implied by such forward-looking statements. The words “believe,” “anticipate,” “expect,” “intend,” “estimate,” “plan,” “may,” “could” and other similar expressions that are predictions of or indicate future events and future trends which do not relate to historical matters, identify forward-looking statements. Any such forward-looking statements are not intended to give any assurances as to future results. Numerous factors could cause actual results to differ materially from those in the forward-looking statements as more fully described in “Part I - Item 1A. Risk Factors” of the 2011 10-K.

Investors are cautioned not to put undue reliance on forward-looking statements, and investors should not infer that there has been no change in our affairs since the date of this report that would warrant any modification of any forward-looking statement made in this document, other documents filed periodically with securities regulators or documents presented on our website. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this notice. We disclaim 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 our disclosure obligations under applicable rules promulgated by the SEC.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The following information with respect to the business experience of the members of the Board of Directors has been supplied by the director or obtained from our records.

**Rockne J. Timm**, 66, a director since 1984. Mr. Timm's principal occupation is Chief Executive Officer of the Company, a position he has held since 1988. Mr. Timm has also served as President and Chairman of the Board from 1988 until January 2004. Mr. Timm is Chairman of the Executive Committee. He has been a director and executive officer of the Company's Venezuelan and other subsidiaries since 1992 and he is President and director of Great Basin Energies, Inc. since 1981 and MGC Ventures, Inc. since 1989. Mr. Timm resides in Spokane, Washington, USA.

*Key attributes, experience and skills:* As Chief Executive Officer of the Company since 1988 Mr. Timm has considerable institutional knowledge of the Company and its activities in Venezuela. He has over 28 years experience in the mining industry which is a key component of our Board's collective experience. He has served as the chief financial officer of an operating gold mining company and director and chief financial officer of a development stage company which provides additional experience and skills that are helpful to the Board. It is these attributes that lead the Board to conclude that Mr. Timm should continue to serve as a director of the Company.

**A. Douglas Belanger**, 58, a director since August 1988. Mr. Belanger's principal occupation is President of the Company, a position he has held since January 2004. Mr. Belanger has also served as Executive Vice President from 1988 through January 2004. He has been a director and executive officer of the Company's Venezuelan and other subsidiaries since 1992 and is Executive Vice President and director of Great Basin Energies Inc. since 1984 and MGC Ventures, Inc. since 1997. Mr. Belanger resides in Spokane, Washington, USA.

*Key attributes, experience and skills:* Mr. Belanger has extensive experience as a director of public companies and in the areas of corporate governance and compliance, which includes his history as a gold mining analyst for two major Canadian investment banks and a policy analyst for the Canadian federal government. He also has several years' experience as a field geologist with various major Canadian mining companies. It is these attributes that lead the Board to conclude that Mr. Belanger should continue to serve as a director of the Company.

**James P. Geyer**, 60, a director of the Company since June 1997. He held the position of Senior Vice President of the Company from January 1997 to August of 2010. Mr. Geyer's principal occupation is Vice President, North America for Stonegate Agricom Ltd. and President of Paris Hills Agricom Inc. (a subsidiary of Stonegate Agricom Ltd.). Mr. Geyer is also a director and member of the environmental, health and safety committee and audit committee of Thompson Creek Metals Company Inc. Mr. Geyer resides in Spokane, Washington, USA.

*Key attributes, experience and skills:* Mr. Geyer is a mining engineer with over 30 years in the mining industry with open pit and underground mining experience adding to the Board's collective experience. He has served as the vice president of operations of a gold mining company with responsibility for six producing gold mines and several development projects. It is these attributes that lead the Board to conclude that Mr. Geyer should continue to serve as a director of the Company.

**Non-executive Directors**

The Board has determined that each of the following members of the Board satisfy the definition of “independent director” as established in the NYSE Amex listing standards and SEC rules.

**James H. Coleman, Q.C.**, 61, a director of the Company since February 1994 and chairman since 2004. The principal occupation of Mr. Coleman, Q.C., is as a Partner with the law firm of Norton Rose LLP, of Calgary. He is also a director of Great Basin Energies Inc. since 1996, MGC Ventures, Inc. since 1997; Anterra Energy Inc. since 2007, Salamander Energy Plc. since 2008, Energold Drilling Corp. since 1994, Sulliden Exploration, Inc, since 2005, and Avion Gold Corporation, since January 2011. Mr. Coleman resides in Calgary, Alberta, Canada.

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*Key attributes, experience and skills:* Mr. Coleman has been involved in banking, corporate, securities, mining and oil and gas transactions in Canada, the United States, Europe, Central and South America, Africa and Asia. He has also been involved in a number of large divestments and acquisitions, corporate reorganizations and major financings within the energy sector. As a director of a number of public companies, including mining and oil and gas companies, Mr. Coleman has chaired various independent committees of public companies relating to corporate, governance and securities matters. In addition to his work in the legal and business sectors, Mr. Coleman is also a member of the Rocky Mountain Mineral Law Foundation and the Prospectors and Developers Association of Canada. It is these attributes that lead the Board to conclude that Mr. Coleman should continue to serve as a director of the Company.

**Patrick D. McChesney**, 62, a director since 1988 and Chief Financial Officer of the Company from 1988 to 1993. He is a director of Great Basin Energies, Inc. since 2002 and MGC Ventures, Inc. since 1989. Mr. McChesney's principal occupation is chief financial officer of Foothills Auto Group, an automobile dealership group based in Spokane, Washington, a position he has held since 2005. Mr. McChesney resides in Spokane, Washington, USA.

*Key attributes, experience and skills:* Mr. McChesney was a certified public accountant and a financial officer of an operating gold mining company and has been president and a director of a company that manufactured automated test equipment for the semiconductor industry. He has been involved in the mining industry since 1983 and has considerable knowledge regarding the Company's activities in Venezuela and currently serves on the audit and compensation committees. It is these attributes that lead the Board to conclude that Mr. McChesney should continue to serve as a director of the Company.

**Chris D. Mikkelsen**, 60, a director since 1997. He is a certified public accountant and since 1976, Mr. Mikkelsen's principal occupation has been as a principal in the certified public accounting firm of McDirmid, Mikkelsen & Secrest, P.S., based in Spokane, Washington. He has been a director of Great Basin Energies, Inc. and MGC Ventures, Inc. since 1997. Mr. Mikkelsen resides in Spokane, Washington, USA.

*Key attributes, experience and skills:* Mr. Mikkelsen has an extensive background in providing operational and tax advice to a wide variety of clients and businesses. He is actively involved as a board member in local charitable and civic organizations. He has considerable knowledge of the Company and currently serves on the audit and compensation committees. It is these attributes that lead the Board to conclude that Mr. Mikkelsen should continue to serve as a director of the Company.

**Jean Charles Potvin**, 58, a director since November 1993 and currently serves on the audit and compensation committees. Mr. Potvin's principal occupation is as director and Chairman of Vaaldiam Mining Ltd. and as a director and President of Flemish Gold Corp. He is also a director and President of BRC Minerals Ltd., a company exploring for iron and gold in northeastern Brazil. Mr. Potvin resides in Toronto, Ontario, Canada.

*Key attributes, experience and skills.* Mr. Potvin is also a director and a member of the audit committee of Azimut Exploration Ltd and Geomega Resources Ltd, both publicly listed mineral exploration companies. He is also a director of Rukwa Minerals, a privately held company. Mr. Potvin holds a Bachelor of Science degree in Geology from Carleton University and an MBA from the University of Ottawa. He spent nearly 14 years as a mining investment analyst for a large Canadian investment brokerage firm (Burns Fry Ltd., now BMO Nesbitt Burns Inc.). It is these attributes that lead the Board to conclude that Mr. Potvin should continue to serve as a director of the Company.

#### **Other Executive Officers**

**Robert A. McGuinness, 56** - Vice President of Finance, Chief Financial Officer

Mr. McGuinness' principal occupation with the Company is as Vice President of Finance since March 1993 and Chief Financial Officer since June 1993. He also serves as Vice President of Finance, Chief Financial Officer and Treasurer of Great Basin Energies, Inc. and MGC Ventures, Inc. Mr. McGuinness resides in Spokane, Washington, USA.

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**Mary E. Smith, 59** - Vice President of Administration and Secretary

Ms. Smith's principal occupation with the Company is as Vice President of Administration since January 1997 and Secretary since June 1997. She also serves as Vice President of Administration and Secretary of Great Basin Energies Inc. and MGC Ventures, Inc. Ms. Smith resides in Spokane, Washington, USA.

### **Involvement in Certain Legal Proceedings**

#### **Cease Trade Orders or Bankruptcies**

Mr. Coleman served as a non-executive director of McCarthy Corporation Plc. from 1993 to March 2003, which proposed a voluntary arrangement with its creditors pursuant to the legislation of the United Kingdom.

The following table represents the Directors and the committees on which they serve.

Director	Executive Committee	Audit Committee	Compensation Committee	Nominating Committee
Rockne J. Timm	Chair			
A. Douglas Belanger	X			
James P. Geyer				
James H. Coleman, Q.C.	X			X
Patrick D. McChesney		X	X	
Chris D. Mikkelsen		Chair	Chair	X
Jean Charles Potvin		X	X	X

### **Section 16 Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who beneficially own more than ten percent (10%) of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of the Company's equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that all reporting requirements under Section 16(a) for the fiscal year ended December 31, 2011, were met in a timely manner by its directors, executive officers, and greater than ten percent (10%) beneficial owners.

### **Code of Conduct and Ethics**

The Board has adopted the Gold Reserve Inc. Code of Conduct and Ethics which can be found at [www.goldreserveinc.com](http://www.goldreserveinc.com) under Investor Relations – Corporate Governance and is available in print to any Shareholder who requests it from the Company by writing to us at Gold Reserve Inc., 926 W. Sprague Ave. Suite 200, Spokane, WA 99201, Attn: Investor Relations.

## **CORPORATE GOVERNANCE**

### **Board Leadership Structure**

Currently, the positions of Chairman of the Board and Chief Executive Officer are separate. Our Board does not have a policy on whether these roles should be separate or combined, but believes that the most effective leadership model for the Company at this time is to have these roles separated. Our current Chairman is independent and is responsible for providing leadership to the Board. In addition, having a separate Chairman and Chief Executive Officer allows Board members to raise issues without involving senior management, allows the Chairman to serve as a liaison between the Board and senior management, and allows the Chief Executive Officer to devote his time and focus to the management of the Company. The Board retains flexibility to determine whether these roles should be separate or combined in one individual in the future.

### **Risk Oversight**

The various committees of the Board assist the Board in its responsibility for oversight of risk management. In particular, the Audit Committee focuses on major financial risk exposures, the steps management has taken to monitor and control such risks, and, if appropriate, discusses with the independent auditor the guidelines and policies governing the process by which senior management and the relevant departments of the Company assess and manage the Company's financial risk exposure and operational/strategic risk. We believe this arrangement maximizes the risk oversight benefit while providing for an appropriate leadership structure.

## **Communication with Board Members**

Any Shareholder or other interested party that desires to communicate with the Board of Directors or any of its specific members, including the chairman or the non-management directors as a group, should send their communication to the Secretary, Gold Reserve Inc., 926 W. Sprague Avenue, Suite 200, Spokane, Washington 99201. All such communications will be forwarded to the appropriate members of the Board.

## **NOMINATING COMMITTEE INFORMATION**

### **Nominating Committee Charter**

The Nominating Committee currently has no written charter.

### **Membership and Role of the Nominating Committee**

The Nominating Committee is composed of the following three (3) directors:

James H. Coleman / Chris D. Mikkelsen / Jean Charles Potvin

The Board had determined each member of the Nominating Committee satisfies the definition of “independent director” as established in the NYSE Amex listing standards and SEC rules.

The Nominating Committee assists the Board in fulfilling its responsibilities with respect to the composition of the Board, including recommending candidates for election or appointment as director of the Company.

In considering and identifying new candidates for Board nomination, the Board, where relevant, addresses succession and planning issues; identifies the mix of expertise and qualities required for the Board; assesses the attributes new directors should have for the appropriate mix to be maintained; arranges for each candidate to meet with the Board Chair and the CEO; recommends to the Board as a whole proposed nominee(s) and arranges for their introduction to as many Board members as practicable; and encourages diversity in the composition of the Board.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The Audit Committee of the Board operates within a written mandate, as approved by the Board, which describes the Committee’s objectives and responsibilities. The full text of the Audit Committee Charter, as amended as of April 2011 may be found at [www.goldreserveinc.com: investor relations/governance](http://www.goldreserveinc.com: investor relations/governance).

### **Membership and Role of the Audit Committee**

The Audit Committee consists of Chris D. Mikkelsen (Chairman), Jean Charles Potvin, and Patrick D. McChesney. The Board has determined each member of the Audit Committee to be “independent” and “financially literate” as such terms are defined under Canadian securities laws. Further, each member of the Audit Committee satisfies the definition of “independent director” as established in the NYSE Amex listing standards and SEC rules. In addition, each member of the Audit Committee is financially literate and the Board has determined that Chris D. Mikkelsen qualifies as an audit committee “financial expert” as defined by SEC and NYSE rules. The Board has made these determinations based on the education and experience of each member of the Committee.

The Audit Committee met four times during 2011 at which attendance, in person or by phone, averaged 100%. The Audit Committee’s principal functions are to assist the Board in fulfilling its oversight responsibilities, and to specifically review: (i) the integrity of our financial statements; (ii) the independent auditor’s qualifications and independence; (iii) the performance of our system of internal audit function and the independent auditor; and (iv) our compliance with laws and regulations, including disclosure controls and procedures. During 2011, the Audit Committee worked with management, our internal auditor and our independent auditor to address Sarbanes-Oxley Section 404 internal control requirements.

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The Audit Committee reviews our financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements, the reporting process and maintaining an effective system of internal control over financial reporting. Our independent auditors are engaged to audit and express opinions on the conformity of our financial statements to accounting principles generally accepted in the United States, and the effectiveness of our internal control over financial reporting.

#### **AUDIT COMMITTEE REPORT**

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2011, together with the related results of management's assessment of the internal control over financial reporting with management and the independent auditor. The Audit Committee has discussed with the independent auditor the matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees), as amended. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board for independent auditor communications with Audit Committees concerning independence, as may be modified or supplemented, and has discussed with the independent auditor the independent auditor's independence. The Audit Committee meets with the internal auditor and independent auditor, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting. The Audit Committee has considered whether the independent auditor's provision of non-audit services to us is compatible with the auditor's independence.

Based on the Audit Committee's review and discussions noted above, the Audit Committee recommended to the Board that our audited financial statements be included in the Annual Report for the fiscal year ended December 31, 2011, for filing with the SEC.

#### **THE AUDIT COMMITTEE**

Chris D. Mikkelsen, Chairman

Jean Charles Potvin

Patrick D. McChesney

## **Item 11. Executive Compensation**

### **eXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

##### **Compensation Committee**

The Company's compensation program was administered during 2011, and has and will continue to be administered in 2012, by the Compensation Committee of the Board (the "Compensation Committee"), composed of Mr. Mikkelsen, Mr. Potvin and Mr. McChesney. The Compensation Committee met four times during 2011. While serving on the Compensation Committee, each of the members attended all four meetings.

The Board had determined that each member of the Compensation Committee satisfied the definition of "independent director" as established in the NYSE Amex listing standards and SEC rules. The Compensation Committee currently has no written charter.

The function of the Compensation Committee is to evaluate the Company's performance and the performance of the Chief Executive Officer, the Chief Financial Officer and each of the next three most highly compensated executive officers (collectively, the "Named Executive Officers"). The Compensation Committee approves the cash and equity-based compensation of the Named Executive Officers and submits such approvals to the full Board for ratification. The Board has complete discretion over the amount and composition of each Named Executive Officer's compensation. Compensation matters relating to the directors were administered by the full Board. Compensation matters relating to each Named Executive Officer that is a member of the Board were administered by the Compensation Committee.

##### **Compensation Program Philosophy**

The goal of the compensation program is to attract, retain and reward employees and other individuals who contribute to both the immediate and the long-term success of the Company. Contributions are largely measured subjectively, and are rewarded through cash and equity-based compensation.

The following objectives are considered in setting the compensation programs for the Named Executive Officers:

- Set compensation and incentive levels that reflect competitive market practices for similar experience and similar size companies; and
- Encourage stock holdings to align the interests of the Named Executive Officers with those of Shareholders.

The Company evaluates the extent to which strategic and business goals are met and measures individual performance, albeit subjectively, and the degree to which teamwork and Company objectives are promoted. The Company strives to achieve a balance between the compensation paid to a particular individual and the compensation paid to other employees and executives having similar responsibilities within the Company. The Company also strives to ensure that each employee understands the components of his or her salary, and the basis upon which it is determined and adjusted.



There is currently no policy requiring officer or director ownership of shares of the Company.

**Compensation Elements and Rationale for Pay Mix Decisions**

To reward both short and long-term performance in the compensation program and in furtherance of the Company's compensation objectives noted above, the Company's executive compensation philosophy includes the following two principles.

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*Compensation levels should be competitive*

A competitive compensation program is vital to the Company's ability to attract and retain qualified senior executives. The Company regularly assesses peer group data to ensure that the compensation program is competitive.

*Incentive compensation should balance short and long-term performance*

To reinforce the importance of balancing strong short-term annual results and long-term viability and success, Named Executive Officers may receive both short and long-term incentives. Short-term incentives focus on the achievement of certain objectives for the upcoming year, while stock options and restricted stock awards create a focus on share price appreciation over the long term.

**Compensation Benchmarking**

The Company in the past established base salaries by using an extensive internal survey of base salaries paid to officers of mining companies with similar experience, similar size mining projects, small to medium size producing companies and other development stage mining companies with large mining projects. The companies considered in our internal survey were:

Copper Mountain Mining Corporation  
Mines Management, Inc.  
Coeur d'Alene Mines Corporation  
Hecla Mining Company  
Revelt Minerals Inc.

Gabriel Resources Ltd.  
NovaGold Resources Inc.  
Crystallex International Corporation  
Rusoro Mining Ltd.

All of the participants of the internally generated survey are listed on the NYSE Amex, the Toronto Stock Exchange or TSX-Venture Exchange. The Company believes that the survey is a very good representation of average salaries paid to officers of comparable mining companies and a good basis on which to make comparisons to the Company. The data was obtained from publicly available information.

**Components of Executive Compensation**

The components of executive compensation are as follows:

*Base Salary.* The administration of the program requires the Compensation Committee to review annually the base salary of each Named Executive Officer of the Company and to consider various factors, including individual performance, experience, length of time in position, future potential, responsibility, and the executive's current salary in relation to the executive salary range at other mining companies. These factors are considered subjectively and none are accorded a specific weight.

*Bonuses.* In addition to base salary, the Compensation Committee from time-to-time recommends to the Board payments of discretionary bonuses to executives and selected employees. Such bonuses are based on the same criteria and determined in a similar fashion as described above.

*Equity.* The Compensation Committee from time-to-time recommends to the Board grants of options and/or restricted stock awards to executives and selected employees. These grants are to motivate the executives and selected employees to achieve goals that are consistent with the Company's business strategies, to create Shareholder value and to attract and retain skilled and talented executives and employees. These factors are considered subjectively and none are accorded a specific weight when granting awards. In addition, the Compensation Committee annually determines

the contribution to the KSOP Plan for allocation to individual participants. Participation in and contributions to the KSOP Plan by individual employees, including officers, is governed by the terms of the KSOP Plan. See “Equity Incentive Plans – KSOP Plan”.

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### **Chief Executive Officer's Compensation**

It is the responsibility of the Compensation Committee to review and recommend to the Board for ratification the compensation package for the Chief Executive Officer based on the same factors listed above that are used in determining the base salaries for the other Named Executive Officers.

The Compensation Committee has not developed specific quantitative or qualitative performance measures or other specific criteria for determining the compensation of the Company's Chief Executive Officer, primarily because the Company does not yet have a producing mine or other operations from which such quantitative data can be derived.

The determination of the Chief Executive Officer's compensation in 2011 was based on an internal survey of other companies previously listed, was subjective, and based on the progress of the proceedings relating to the resolution of the investment dispute with Venezuela, and the pursuit of new corporate opportunities.

### **Other Named Executive Officers' Compensation**

In determining the compensation of the other Named Executive Officers, the compensation during 2011 was also based on an internal survey of other companies, was subjective, and based on the progress of the proceedings relating to the resolution of the investment dispute with Venezuela, and the pursuit of new corporate opportunities. Generally, the Compensation Committee considers prior compensation and equity grants when considering current compensation.

### **Change of Control Agreements**

The Company maintains Change of Control Agreements with each of the Named Executive Officers which were implemented by the Board to induce the Named Executive Officers to remain with the Company and continue their involvement in the then ongoing development of the Brisas project and more recently, resolution of the investment dispute with Venezuela and the pursuit of new corporate opportunities. A "Change of Control" means one or more of the following: the acquisition by any individual, entity or group, of beneficial ownership of the Company of 25 percent of the voting power of the outstanding Common Shares; a change in the composition of the Board that causes less than a majority of the current directors of the Board to be members of the incoming board; reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company; liquidation or dissolution of the Company; or any other event the Board reasonably determines constitutes a Change of Control. Change of Control benefits become payable under the terms of the Change of Control agreements if, within 12 months following a Change of Control, the employee's employment is terminated by the Company or the surviving or successor entity without cause or the employee voluntarily terminates his/her employment for reasons specified under the respective Change of Control Agreement. Such reasons include a substantial alteration in the nature or status of employment responsibilities or a reduction in compensation or benefits.

The Board believes these individuals' familiarity and long-standing involvement with the Brisas project are important assets to the Company and their continued employment is important to resolve the dispute with Venezuela. The Board believes that the loss of their continued services could have a detrimental impact on the successful outcome of the arbitration, the potential settlement of the dispute with Venezuela, and the successful sale of assets associated with the Brisas Project. See "Termination and Change of Control Benefits".

### **SUMMARY COMPENSATION TABLE**

The amount related to Share Awards and Option Awards does not necessarily represent the value of the shares when vesting occurs, the value of the options when exercised, or value the employee may realize from the sale of the shares.

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Name and Principal Position		Salary	Cash		Share Awards <sup>(1)</sup>		Option Awards <sup>(2)</sup>		All Other Compensation <sup>(3)</sup>	Total Compensation
			Bonus	#	\$	#	\$			
Rockne J. Timm	2011	300,000	17,885	-	-	480,000	669,023	32,499	1,019,407	
	2010	300,000	-	100,000	181,000	-	-	24,500	505,500	
Chief Executive Officer										