GOLD RESERVE INC
Form 20-F
March 31, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

Commission file number: **001-31819**

GOLD RESERVE INC.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

Yukon Territory, Canada
(Jurisdiction of incorporation or organization)

926 West Sprague Avenue, Suite 200, Spokane, Washington 99201

(Address of principal executive offices)

Rockne J. Timm,

926 West Sprague Avenue, Suite 200, Spokane, Washington, 99201 (509) 623-1500 Fax: 509-623-1634

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Class A common shares, no par value per share	**The Toronto Stock Exchange ("TSX")**
Preferred share purchase rights	**NYSE Amex**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Class A common shares, no par value per share
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

Class A common shares, no par value per share: 56,869,055

Equity Units, no par value per share: 961

Indicate by check mark if the Registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act. ¨Yes xNo

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨Yes x 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. xYes ¨No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

If this is an annual report, indicate by a check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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PART I

GENERAL INFORMATION

EXPLANATORY NOTE

Gold Reserve Inc. (the "Company") is a Canadian issuer eligible to file its Annual Report pursuant to Section 13 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), on Form 20-F. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and in Rule 405 under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Equity securities of the Company are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3.

In this Annual Report, unless the context otherwise requires, the terms common shares and shares refer to Class A common shares of the Company. An equity unit consists of one Class B common share of Gold Reserve Inc. and one Class B common share of Gold Reserve Corporation. Equity units are convertible into Class A common shares of Gold Reserve Inc. on a one-to-one basis and confer no special voting rights.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information presented or incorporated by reference in this Annual Report contains both historical information and forward-looking statements (within the meaning of the Securities Act (Ontario), Section 27A of the Securities Act and Section 21E of the Exchange Act) that may state the Company s or its management s 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 management at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies. We caution that such forward-looking statements involve known and unknown risks, uncertainties and other risks that may cause the actual financial results, performance, or achievements of the Company to be materially different from our estimated future results, performance, or achievements expressed or implied by those forward-looking statements.

These 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 the results of the Company and its consolidated subsidiaries 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. See -Item 3. Key Information - Risk Factors. Due to risks and uncertainties, including risks and uncertainties identified above and in this Annual Report, actual results may differ materially from current expectations.

Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation: concentration of operations and assets in Venezuela; corruption and uncertain legal enforcement; requests for improper payments; competition with companies that are not subject to or do not follow Canadian and U.S. laws and regulations; the outcome of any potential proceedings under the Venezuelan legal system or before arbitration tribunals as provided in investment treaties entered into between Venezuela, Canada and Barbados to determine the compensation due to the Company in the event that the Company and the Venezuelan government do not reach an agreement regarding construction and operation of the Brisas Project, or the Brisas Project is transferred to the Venezuelan government and the parties do not reach agreement on compensation; regulatory, political and economic risks associated with Venezuelan operations (including changes in previously established laws, legal regimes, rules or processes); the ability to obtain, maintain or re-acquire the necessary permits or additional funding for the development of the Brisas Project; the result or outcome of the leave for appeal for Rusoro Mining Ltd. ("Rusoro") with respect to the interlocutory injunction restraining Rusoro from proceeding with any unsolicited takeover bid of the Company until the conclusion and disposition at trial; significant differences or changes in any key findings or assumptions previously determined by us or our experts in conjunction with our 2005 bankable feasibility study (as updated or modified from time to time) due to actual results in our expected construction and production at the Brisas Project (including capital and operating cost estimates); the method and manner of our determination of reserves, risk that actual mineral reserves may vary considerably from estimates presently made; impact of currency, metal prices and metal production volatility; fluctuations in energy prices; changes in proposed development plans (including technology used); our dependence upon the abilities and continued participation of certain key employees; the prices, production levels and supply of and demand for gold and copper produced or held by The Company; the potential volatility of the Company s Class A common shares; the price and value of the Company s notes, including any conversion of notes into the Company s Class A common shares; the prospects for exploration and development of projects by the Company; and risks normally incident to the operation and development 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 should not infer that there has been no change in the affairs of the Company 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 the Company 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 its disclosure obligations under applicable rules promulgated by the U.S. Securities and Exchange Commission (the "SEC").

Investors are urged to read the Company s filings with U.S. and Canadian securities regulatory agencies, which can be viewed on-line at www.sec.gov, www.sedar.com or at the Company s website, www.goldreserveinc.com. Additionally, you can request a copy of any of these filings directly from the Company.

CAUTIONARY NOTE REGARDING DIFFERENCES IN U.S. AND CANADIAN REPORTING PRACTICES

The Company prepares its financial statements, which are filed with this Annual Report on Form 20-F, in accordance with Canadian generally accepted accounting principles ("GAAP"), and they are subject to Canadian auditing and auditor independence standards. Accordingly, the audited consolidated financial statements of the Company included herein may not be comparable to financial statements of U.S. companies. Significant differences between Canadian GAAP and U.S. GAAP are described in Note 18 of the consolidated financial statements of the Company.

CAUTIONARY NOTE REGARDING RESOURCE AND RESERVE ESTIMATES

Information contained in this report and the documents incorporated by reference herein containing descriptions of our mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the U.S. federal securities laws and the rules and regulations thereunder.

The terms "Mineral Reserve," "Proven Mineral Reserve" and "Probable Mineral Reserve" are Canadian mining terms as defined in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council. These definitions and the definition of "proven" and "probable" reserves used in NI 43-101 differ from the definitions in the SEC Industry Guide 7. We believe we have proven and probable reserves pursuant to Industry Guide 7.

In addition, the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource" are defined in and required to be disclosed by NI 43-101. However, these terms are not defined terms under SEC Industry

Guide 7 and normally are not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases, and such estimates are not part of the SEC Industry Guide 7.

CURRENCY

Unless otherwise indicated, all references to "$", "US$" or "U.S. dollars" or "dollars" in this Annual Report refer to U.S. dollars and references to "Cdn$" refer to Canadian dollars. The twelve month average rate of exchange for one Canadian dollar, expressed in U.S. dollars, for each of the last three years equaled 0.9374, 0.9309 and 0.8815, respectively and the exchange rate at the end of each such period equaled 0.8170, 1.0120 and 0.8582, respectively.

FINANCIAL REPORTING

The Company maintains its accounts in U.S. dollars and prepares its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The consolidated financial statements of the Company for December 31, 2008 are included under Item 18 in this Annual Report. The differences between Canadian and U.S. GAAP are reconciled in Note 18 of the consolidated financial statements of the Company. All information in this Annual Report is as of March 30, 2009, unless otherwise noted.

CORPORATE STRUCTURE

Except as otherwise indicated herein, the terms "we," "us," "our," and the "Company" throughout this Annual Report refer primarily to: (in the case of Brisas) Gold Reserve Inc., Gold Reserve Corporation, Gold Reserve de Barbados Limited (domiciled in Canada, the U.S. and Barbados, respectively), Gold Reserve de Venezuela, C.A. ("GLDRV") and Compania Aurifera Brisas del Cuyuni, S.A. ("BRISAS") (both domiciled in The Republic of Venezuela ("Venezuela"). In the case of the Choco 5 Project, the terms noted above refer to Gold Reserve Inc., Gold Reserve Corporation, GRI El Choco Limited and GRI El Choco Minerales C.A. (domiciled in Barbados and Venezuela, respectively). The Company has two additional U.S. subsidiaries, Great Basin Energies, Inc. ("Great Basin") and MGC Ventures Inc. ("MGC Ventures"). All of the consolidated companies noted above are wholly owned by Gold Reserve Inc. except for Great Basin and MGC Ventures, which are approximately 45% and 44% owned, respectively.

THE COMPANY

Gold Reserve Inc. is a corporation incorporated in 1998 under the laws of the Yukon Territory, Canada. The Company's. registered agent is Austring, Fendrick, Fairman & Parkkari, The Drury Building, 3801 Third Avenue, Whitehorse, Yukon, Y1A 4Z7. Telephone and fax numbers for the registered agent of the Company are 867.668.4405 and 867.668.3710, respectively. The Company's Brisas Project corporate administrative office is located at 926 West Sprague Avenue, Suite 200, Spokane, WA 99201, U.S.A. and its Venezuelan administrative and technical offices are located in Caracas and Puerto Ordaz, Venezuela. Telephone and fax numbers for the Company's corporate administrative office are 509.623.1500 and 509.623.1634, respectively.

The Company is engaged in the business of exploration and development of mining projects and continues to focus the majority of its management and financial resources on its most significant asset, Brisas, and to a lesser extent the exploration of its Choco 5 property, both located in Bolivar State, Venezuela. Historically we have financed the Company s operations through the sale of common stock, other equity securities and convertible debt. Management expects Brisas, if constructed, to be similarly financed along with project and corporate debt financing.

We are dependent on Venezuelan regulatory authorities issuing to us various permits and authorizations relating to Brisas that we require prior to completing construction of and subsequently operating Brisas. The rules and regulations related to the Venezuelan mining sector are in transition. A new mining law has been discussed by the current administration for a number of months. Although various alternative changes have been addressed publicly in the past 12 months, the specific provisions of any new law is still unclear and the government has not yet announced when any new mining law will be approved and enacted.

BRISAS PROJECT

Our Brisas gold and copper project (Brisas) is located in the Kilometre 88 mining district of the State of Bolivar in south-eastern Venezuela. The term "Brisas Project" is used interchangeably throughout this report with the "Brisas Property" or "Brisas." Since we acquired Brisas in

1992, the Company has spent in excess of $250 million on the project (including capitalized costs and equipment recorded in the Consolidated Balance Sheet and operating costs in support of our Venezuelan operations recorded in the Consolidated Statement of Operations) See "Item 4. Information on the Company - Properties - Brisas Project."

The costs expended include property and mineral rights, easements, acquisition costs, equipment expenditures, litigation settlement costs, general and administrative costs and extensive exploration costs including geology, geophysics and geochemistry, approximately 975 drill holes totaling over 200,000 meters of drilling, independent audits of drilling, sampling, assaying procedures and ore reserves methodology, environmental baseline work/socioeconomic studies, hydrology studies, geotechnical studies, mine planning, advanced stage grinding and metallurgical test work, tailings dam designs, milling process flow sheet designs, Environmental Impact Statement and Bankable Feasibility Study, including a number of subsequent updates, and an independent CSA National Instrument 43-101 report which was most recently updated in March 2008. Detailed engineering for Brisas was approximately 85% complete at the date of this report.

The Venezuelan Ministry of Mines (MIBAM) approved the Brisas operating plan during 2003 and in early 2007 the Venezuelan Ministry of Environment (MinAmb) approved the Brisas Environmental and Social Impact Study for the Exploitation and Processing of Gold and Copper Ore (Estudio de Impacto Ambiental y Sociocultural) ("ESIA"). In March 2007, MinAmb issued the Authorization for the Affectation of Natural Resources for the Construction of Infrastructure and Services Phase of the Brisas Project (the Authorization to Affect).

Based on the issuance of the Authorization to Affect in 2007, we commenced significant pre-construction procurement efforts with the assistance of SNC-Lavalin, awarding contracts for Brisas site prep and construction camp facilities and placing orders for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors and other related processing equipment, early-works construction equipment and various other site equipment totaling approximately $125.3 million, accelerated detailed project engineering, hired a number of senior technical staff, completed the sale of approximately $103.5 million of senior subordinated convertible notes ("convertible notes) and $74 million in new equity, launched a number of environmental and social initiatives and commenced preparation of the Brisas site for construction activities.

In May 2008, the Company received notification from the MinAmb of its decision to revoke the 2007 Authorization to Affect. Venezuelan legal counsel advised management that the revocation of the Authorization to Affect is groundless and legally unsupported.

The Company filed an appeal with the Minister of MinAmb shortly after the revocation which outlined our belief as to the factual flaws referenced in the revocation and requested that the Minister reinstate the Company s Authorization to Affect. As of the date of this report, MinAmb has failed to respond to the Company in regards to its appeal. Recently the Company filed an appeal with the Supreme Court to protect our in-country rights.

Regulation of the Venezuelan mining sector is in transition. A new mining law has been discussed by the current administration and the National Assembly since 2005 when a draft mining law was submitted to the National Assembly for approval. Although various alternative changes have been addressed publically during the last 12 months, the specific provisions of any new law is still unclear and the government has not yet announced when any new mining law will be approved and enacted. As of the date of this report, the Company has not been able to confirm how the government wishes to proceed regarding the development of Brisas. In the third quarter of 2008 the Company received accreditation letters of technical compliance from MIBAM for all of the properties that comprise Brisas.

Since we received the revocation notice, management has communicated with various Venezuelan government officials with the intention of resolving the impasse. We believe that (a) through the new mining law the Venezuelan government may seek to participate in all mining projects through a state company or joint venture, (b) if the government participates in the mining projects, it may pay its pro rata share of investments to date and its share of future capital costs relating to the projects, and (c) the government believes that the Brisas Project and Las Cristinas project should be combined into a single project in which the benefits to all participants, including the local communities and the government, will be maximized.

However, until the government announces the provisions of the new mining law and mining policies or we are able to determine otherwise, there can be no assurance as to what provisions will or will not be included. We plan to continue to work with the Venezuelan government to either finalize the necessary pre-production permits for the Brisas Project and proceed with the development of Brisas with the support of the government; seek a settlement with the Venezuelan government on terms acceptable to us; or seek remedies either under Venezuela s domestic legal system or via bilateral investment treaties that we believe protect investments such as ours in Venezuela.

Item 1. Identity of Directors, Senior Management and Advisors Not Applicable

Item 2. Offer Statistics and Expected Timetable Not Applicable

Item 3. Key Information

SELECTED FINANCIAL DATA

The selected financial data set forth below is derived from and should be read in conjunction with the Company's consolidated financial statements and notes thereto included in this Annual Report under Item 18. Financial Statements and Item 5. Operating and Financial Review and Prospects. The following selected financial data has been prepared in U.S. dollars on the basis of accounting principles generally accepted in Canada.

	2008	(Restated) 2007	2006	2005	2004
			(in thousands of U.S. dollars, except share and per share data)		
Other Income	$2,445	$6,499	$8,252	$1,403	$900
Net loss before tax	(18,989)	(11,953)	(6,455)	(9,026)	(5,483)
Per share	(0.34)	(0.24)	(0.17)	(0.26)	(0.19)
Fully diluted	(0.34)	(0.24)	(0.17)	(0.26)	(0.19)
Net loss	(19,726)	(11,980)	(6,977)	(9,027)	(5,483)
Per share	(0.35)	(0.24)	(0.18)	(0.26)	(0.19)
Fully diluted	(0.35)	(0.24)	(0.18)	(0.26)	(0.19)
Total assets(1)	287,615	281,899	104,616	81,955	86,606
Convertible notes	91,830	70,306	-	-	-
Net Assets					
Shareholders equity (2)	185,106	201,321	100,972	79,638	84,176
Capital stock	247,501	244,296	167,464	140,512	136,908
Common shares: (3)					
Issued	57,119,055	55,060,934	40,581,192	35,196,287	33,715,795
Outstanding	56,869,055	54,810,934	40,331,192	34,902,200	33,421,708
Equity Units: (3)					
Issued	500,236	1,085,099	1,085,099	1,110,020	1,157,397
Outstanding	961	585,824	585,824	610,745	658,122

1. Total assets prepared in accordance with accounting principles generally accepted in the U.S. at December 31, 2008, 2007, 2006, 2005, and 2004 were $224,126, $238,934, $65,916, $45,033, and $48,615, respectively. See Note 18 to the Company s consolidated financial statements, "Differences between Canadian and U.S. GAAP."

2. Total shareholders equity prepared in accordance with accounting principles generally accepted in the U.S. at December 31, 2008, 2007, 2006, 2005, and 2004 was $113,686, $130,085, $61,963, $42,716, and $46,186, respectively. See Note 18 to the Company s consolidated financial statements, "Differences between Canadian and U.S. GAAP."

3. Great Basin and MGC Ventures are both a part of the consolidated financial statements of the Company and own shares of the Company. As a result, the Company has an indirect investment in itself. The shares and equity units held by these entities represent the difference between issued and outstanding shares.

DIVIDENDS

We have not declared cash or share dividends since 1984 and have no present plans to pay any cash or share dividends. We may declare cash or share dividends in the future only if earnings and capital of the Company are sufficient to justify the payment of such dividends.

RISK FACTORS

Uncertainty regarding required permits and authorizations for Brisas.

We are dependent on various local, state and federal agencies in Venezuela to issue to us various permits and authorizations relating to Brisas that we require prior to completing construction of, and subsequently operating, Brisas. We believe that reasons for any action or any failure to act by any of the various local, state and federal agencies in Venezuela often relate to factors outside of the Company s control or in response to the Company s lawful actions. In May 2008, as more fully discussed elsewhere in this report, the Company received notification from the MinAmb of its decision to revoke the Authorization to Affect. Since we received the revocation notice, management has communicated with various Venezuelan government officials with the intention of resolving the impasse. However, as of the date of this report, the Company has not been able to confirm how the government wishes to proceed regarding the development of Brisas. We can give no assurance when or if the Authorization to Affect will be re-issued or whether, if the authorization is re-issued, the issuance of additional permits and/or authorizations the Company requires for Brisas will be delayed or withheld, or any existing rights or approvals already issued or granted to the Company for its operations in Venezuela will be rescinded, or otherwise challenged. Failure to obtain the Authorization to Affect or any future permit and/or authorization will result in the Company not being able to construct and operate Brisas, which will result in continued operating losses and a material adverse affect on the Company generally, including our financial position and results of operations.

Uncertainty regarding potential arbitration.

In the event that the Company and the Venezuelan government do not reach an agreement regarding construction and operation of Brisas, or Brisas is nationalized or expropriated by or transferred to the Venezuelan government (expressly or constructively) and the parties do not reach agreement on compensation, the Company may submit the matter to the appropriate arbitration tribunal as provided in investment treaties entered into between Venezuela, Canada and other countries to determine the compensation due to the Company. The cost for the prosecution of these matters by the Company could be substantial, and there is no assurance that the Company would be successful in its claims or, if successful, would realize any compensation from the Venezuelan government. If we are unable to prevail on claims we may assert against the Venezuelan government or realize compensation in respect of our claims, the Company would be materially adversely affected.

Uncertainty resulting from potential proposals to acquire the Company may adversely affect our business.

On December 12, 2008 the Company received an unsolicited proposal from Rusoro to acquire all of the Company s outstanding shares. Rusoro commenced an unsolicited takeover bid on December 15, 2008. On December 16, 2008, the Company filed an action in the Ontario Superior Court of Justice against Rusoro and Endeavour Financial International Corporation ("Endeavour"), its financial advisor, seeking an injunction restraining Rusoro and Endeavour from proceeding with Rusoro s unsolicited offer, significant monetary damages, and various other items. On February 10, 2009 the Ontario Superior Court of Justice granted, an interlocutory injunction restraining Rusoro and Endeavour from proceeding with any hostile takeover bid to acquire the shares of the Company until the conclusion and disposition at trial of the action previously commenced by the Company. Following the issuance of the interlocutory injunction, Rusoro withdrew its offer yet sought permission or leave from the Ontario Superior Court of Justice to appeal the interlocutory injunction. The hearing on that motion for leave to appeal will be heard by the Court on April 2, 2009. It is uncertain whether the Ontario Superior Court of Justice will grant Rusoro s motion for leave to appeal. Moreover, there can be no assurances as to the ultimate outcome of this litigation, whether Rusoro will pursue any other legal course of action or, if it is granted leave to appeal and prevails on such an appeal, whether Rusoro will make another offer to purchase our Class A common shares and equity units. Further, other third parties may, in the future, make proposals to acquire part or all of the Company. Unsolicited offers may create uncertainty for our management, employees, suppliers and other business partners, cause heavy expenditures and may negatively impact our business.

A significant number of our common shares could be issued as a result of the conversion of our convertible notes, causing significant dilution to existing shareholders.

In May 2007, the Company issued $103,500,000 aggregate principal amount of its 5.50% convertible notes due on June 15, 2022. As of March 30, 2009, the Company had re-purchased approximately $1.1 million (face value) of the notes. The notes are convertible into Class A common shares of the Company at the initial conversion rate, subject to adjustment, of 132.626 shares per $1,000 principal amount (equivalent to a conversion price of $7.54) or approximately 13.3 million common shares. Upon conversion, the Company generally has the option to deliver common shares, cash or a combination thereof for the notes surrendered. On June 15, 2012 note holders have the option to require the Company to repurchase the notes, at a price equal to 100% of the principal amount of the notes plus accrued but unpaid interest. The Company may elect to satisfy its obligation to pay the repurchase price, in whole or in part, by delivering common shares. If the Company elected to repurchase the notes with common shares using the closing share price on March 30, 2009, the Company would be required to issue

approximately 157 million common shares. In addition, at any time on or after June 16, 2010, and until June 15, 2012, the Company may redeem the notes, in whole or in part, for cash at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest if the closing sale price of the common shares is equal to or greater than 150% of the initial conversion price then in effect and the closing price for the Company s common shares has remained above that price for at least twenty trading days in the period of thirty trading days preceding the Company s notice of redemption. Thereafter, beginning on June 16, 2012, the Company may, at its option, redeem all or part of the notes for cash at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest. Voluntary redemption of the Company s convertible debt would likely result in significant dilution to existing common shareholders.

Our mining assets are concentrated in Venezuela and our operations are subject to inherent local risks.

Our exploration and development activities in Venezuela are affected by certain factors including those listed below which are beyond our control. Any one of those factors could have a material adverse affect on our financial position and results of operations. See also "-Uncertainty regarding required permits and authorizations for Brisas."

Political and Economic Environment

The Company s principal mineral properties are located in Venezuela and, as such, the Company is subject to political and economic risks, including:

- Corruption, requests for improper payments, or other actions that may violate Canadian and U.S. foreign corrupt practices acts, uncertain legal enforcement and physical security;
- Competition with companies from countries that are not subject to or do not follow Canadian and U.S. laws and regulations;
- Invalidation, confiscation, expropriation or rescission of governmental orders, permits, agreements or property rights;
- The effects of local political, labor and economic developments, instability and unrest;
- Significant or abrupt changes in the applicable regulatory or legal climate;
- Civil unrest, military actions and crime;
- International response to Venezuelan domestic and international policies;
- Limitations on mineral exports;
- Exchange controls and export or sale restrictions;
- Currency fluctuations and repatriation restrictions;
- Laws or policies of foreign countries and Canada affecting trade, investment and taxation; and
- New regulations on mining, environmental and social issues.

The Venezuelan government has in the past exercised, and continues to exercise, significant influence over what the government considers to be strategic Venezuelan industries, such as the oil industry. These actions have created uncertainty about the business environment in Venezuela for foreign companies. There can be no assurance that the Venezuelan government will not take similar measures relating to other sectors of the Venezuelan economy, including foreign mining operations. These risks may limit or disrupt any of our operations or result in the deprivation of contractual rights or the taking of property by nationalization, expropriation or other means without fair compensation. We do not currently maintain any insurance covering losses or obligations related to political risks.

Government Review of Contracts and Concessions for Compliance

In 2005, the Venezuelan government announced that it intended to review all foreign investments in non-oil basic industries, including gold projects. As part of that review, the Venezuelan government announced that it would be changing the country s existing mining law to a system where all "new" economic interests would be granted in the form of joint ventures or operating mining licenses. In order to effect this change, a new draft mining law was submitted to the National Assembly which provided for, among other things, the control of primary mining activities exclusively by the state. This would occur either directly through a national mining company or via a joint venture with private entities in which the state would hold more than 50% of the capital stock of the joint venture. The Venezuelan government also announced that it would review existing concessions and contracts to determine if the holder was in compliance with the existing terms and conditions of such concessions and contracts and whether the holder was entitled to continue their original work under the original terms and conditions and qualify under the new regime.

Although we believe that all of our properties are in compliance with applicable regulations, the formal public announcement of the results of the compliance review has not been made and it is unclear when such formal public announcement will take place or whether the final policy when announced will be consistent with prior public statements. In addition, the draft mining law has yet to be enacted and implemented. Although we believe the draft law does not propose to extinguish pre-existing mining concessions that are in compliance with and granted under

previous mining legislation, such as those held by us, it is unclear what provisions the final law will contain, if or when they will be enacted, or how those final provisions will impact our operations in Venezuela in the future. Among other things, this law when enacted may adversely affect our ability to renew, or otherwise render unenforceable the renewal clauses contained in, any or all of our mining concessions.

If the renewal of any of our significant concessions relating to Brisas is denied, this would have a material adverse effect on us. Until the draft law is finalized and enacted, the previous mining legislation remains in force. We cannot provide any assurance that the creation of a national mining company will not materially adversely affect our ability to develop and operate our Venezuelan properties, including our ability to renew our mining concessions, or that we will not be required to enter into a joint-venture that is controlled by the Venezuelan government in order to develop and operate Brisas.

In the third quarter of 2008 we received accreditation letters of technical compliance from MIBAM for all of the properties that comprise Brisas.

Currency and Exchange Controls

In 2003, the Central Bank of Venezuela implemented foreign exchange controls which fixed the rate of exchange between Venezuelan Bolivars (Bs.) and the U.S. dollar. In March of 2005, the rate was fixed at 2,150 Bs. to US $1.00. On January 1, 2008 the Venezuelan government modified the currency, fixing the official exchange rate at 2.15 Bs. to US $1.00.

In 2005, the Venezuelan government enacted the Criminal Exchange Law which imposes criminal and economic sanctions on the exchange of Bolivars with foreign currency unless the exchange is made by officially designated methods. Such currency exchange approvals have often been limited or delayed and, as a result, can negatively affect the ability of companies doing business in Venezuela to convert Venezuelan source income into foreign currency. The exchange regulations do not apply to transactions with certain securities denominated in Bolivars which can be swapped for securities denominated in another currency effectively resulting in a parallel market for the Bolivar. Generally, US Treasury securities are purchased and then swapped at an agreed upon rate of exchange for Venezuelan notes denominated in Bolivars. The notes are then sold to obtain the Venezuelan currency.

To date these regulations have not adversely affected our operations as the Company primarily transfers funds into Venezuela for its operations. However, this will change in the future to the extent that the Company begins production and exports gold from Venezuela and we are unable to predict the future impact, if any, at this time. Future fluctuations of the Venezuelan Bolivar against the U.S. dollar and exchange controls could negatively impact the Company s financial condition including increased capital cost, the amount realized for the sale of gold and operating costs.

Unauthorized Small Miners

High metal prices, unemployment and the exchange control measures implemented by the Venezuelan government encourage the activity of small miners throughout the mining regions. The methods used by the small miners to extract gold from surface material are typically environmentally unsound and in general their presence can be disruptive to the rational development of a mining project such as Brisas or the Choco 5 project. A significant number of unauthorized small miners have from time to time occupied properties near or adjacent to Brisas and Choco 5. A very limited number of small miners have also, from time to time, entered our properties to dig for gold. To combat this problem, the government through MIBAM and Mission Piar, has designated large neighboring areas such as Biskaitarra, Carabobo, Oro Uno and Albino for small mining activity. So far, the Company has been successful with the support of MIBAM and nearby communities in dealing with this important matter and its social implications by relocating any encroaching small miners to designated properties. As of the date of this report, the Company is aware that a group of four small miners entered an area of Brisas during late February and MIBAM is in the process of having them relocated. Notwithstanding that we maintain a security presence and have implemented other procedures to mitigate the risk that the small miners might try to occupy our properties, we can give no assurances that such activities will not occur in the future. This issue is a purported "primary reason" for the revocation of the Authorization to Affect back in May 2008 when no small miners were present in Brisas. See "Item 4. Information on the Company - Properties -Brisas Project."

Imataca Forest Reserve

Brisas is located within the boundaries of the 3.75 million hectare Imataca Forest Reserve (the "Imataca Forest") in an area presently approved by Presidential Decree for mining activities. On September 22, 2004, after public consultation, Presidential Decree 3110 was published in the Official Gazette of the Republic of Venezuela (the "Official Gazette") identifying approximately 12% of the Imataca Forest in south-eastern Venezuela to be used for mining activities. Decree 3110 was issued in response to legal challenges to prior Presidential Decree 1850, which opened an even larger part of the Imataca Forest to mining and other activities and which had become subject to a legal challenge before the Venezuelan Supreme Court. In 1997, the Venezuelan Supreme Court issued a cautionary pronouncement as an interim measure pending a final ruling ordering the MIBAM to abstain from granting concessions, authorization or other acts relating to mining exploration or

exploitation in the Imataca Forest.

We have been advised that the legal proceeding before the Venezuelan Supreme Court became moot upon the issuance of Decree 3110. Although since the issuance of Decree 3110, the MIBAM has, on a selective basis, issued concessions, authorizations and other acts relating to mining exploration or exploitation in the Imataca Forest, we can give no assurances, given that the legal proceeding has not been formally terminated in the Venezuelan Supreme Court, that the MIBAM will, in the future, issue authorizations required to complete construction of, and subsequently operate, Brisas. This issue is a purported "primary reason" for the revocation of the Authorization to Affect. See "Item 4. Information on the Company - Properties - Brisas Project."

Venezuelan Environmental Laws and Regulations

Venezuela maintains environmental laws and regulations for the mining industry that impose specific obligations on companies doing business in the country. The MinAmb, which administers Venezuelan environmental laws and regulations, proscribes certain mining recovery methods deemed harmful to the environment and monitors mining activities to ensure compliance. Venezuela s environmental legislation provides for the submission and approval of environmental impact statements for certain operations and provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which could result in environmental pollution. A breach of current or future environmental legislation may result in the imposition of fines and penalties or the suspension or closure of any future operations, the extent of which cannot be predicted. Insurance covering losses or obligations related to environmental liabilities is not maintained and will only be maintained in the future if available on a cost-effective basis. Although we believe that we have adopted a high standard of environmental compliance, failure to comply with or unanticipated changes in such laws and regulations in the future could have a material adverse impact on our financial condition and results of operations. This issue is a purported "primary reason" for the revocation of the Authorization to Affect. See "Item 4. Information on the Company - Properties - Brisas Project."

Challenges to Mineral Property Titles or Contract Rights

Acquisition of title or contract rights to mineral properties is a very detailed and time-consuming process under Venezuelan law. Mining properties sometimes contain claims or transfer histories that examiners cannot verify, and transfers can often be complex. From 1992 to late 1994 we were involved in a lawsuit relating to the ownership of Brisas. We successfully defended our ownership rights in the Venezuelan courts and subsequently settled the lawsuit for a substantial sum.

Not withstanding the revocation of the Authorization to Affect, we believe that we have the necessary title and rights to all of the properties for which we hold concessions or other contracts and leases. We can make no assurances that the revocation of the Authorization to Affect will be reversed nor can we be certain that someone will not challenge or impugn title or contract rights to such properties in the future or whether any such challenges will be by third parties or a government agency. We do not carry title insurance with respect to our mineral properties. A claim that we do not have title or contract rights to a property could have an adverse impact on our business in the short-term, and a successful claim that we do not have title or contract rights to a property could cause us to lose our rights to build infrastructure on or mine that property, perhaps without compensation for our prior expenditures relating to that property.

In addition to the Brisas alluvial and hardrock concessions, we have also applied to the appropriate government agencies for various concessions and related extensions, contracts, land use agreements and easements allowing the use of certain land parcels contiguous to and nearby Brisas for operational and infrastructure needs. Although these applications were contained in an operating plan that has already been approved by the appropriate regulatory agencies, we can give no assurances when such applications will be approved, if ever.

Compliance with Other Laws and Regulations

In addition to being subject to environmental laws and regulations, our activities are subject to extensive laws and regulations governing health and worker safety, employment standards, waste disposal, protection of historic and archaeological sites, explosives, mine development and protection of endangered and protected species and other matters. We are required to have a wide variety of permits from governmental and regulatory authorities to carry out our activities. Obtaining the necessary permits is critical to our business.

Obtaining and maintaining permits is a complex, time consuming process and, as a result, we cannot assess whether necessary permits will be obtained or maintained on acceptable terms, in a timely manner or at all. The failure of the Venezuelan government to approve the required permits or authorizations could have a material adverse impact on our future operating results. Any failure to comply with applicable laws and regulations or the failure to obtain or maintain permits or authorizations, even if inadvertent, could result in the interruption of our operations or civil or criminal fines or penalties or enforcement actions, including orders issued by authorities enjoining or curtailing operations or requiring corrective measures, any of which could result in us incurring significant expenditures that could, in turn, have an adverse impact on our financial condition and results of operations.

Future results depend on Brisas.

We depend on a single project, Brisas, which is a development stage project and which may never be developed into a commercially viable ore body. Any adverse event affecting Brisas or our ability to finance and/or construct and operate this project would have a material adverse impact on our financial condition and results of operations.

Obtaining funding for Brisas is essential to the Company s plans.

The timing and extent of funding future investments in Brisas depends on a number of important factors, including the re-issuance of the Authorization to Affect, the receipt of on-going permits or authorizations required in the future, the condition of world-wide equity and debt markets, actual timetable of our development plan, the price of gold and copper, our share price, results of our efforts to obtain financing, the political and economic conditions in Venezuela, and the ultimate capital costs of the project including our ability to obtain tax exonerations or payment holidays.

The Board of Directors approved a plan to proceed with financing and, if successful, construction of Brisas based on the results of the Bankable Feasibility Study completed in early 2005. The original feasibility study and subsequent updates, including the most recent NI 43-101 update in March 2008 (the "March 2008 NI 43-101 report"), contemplate an initial capital expenditure of approximately $731 million, excluding working capital, critical spares and initial fills of approximately $53 million and value added taxes and import duties which are estimated at approximately $54 million. Management expects to apply for tax exonerations or payment holidays for certain taxes including value added tax and import duty tax on the initial capital costs, which are provided by law. However, there can be no assurances that such exonerations will be obtained, the primary result of which would be to increase initial capital required to place Brisas into production.

Management provides no assurances that it will be able to obtain the substantial additional financing that will be needed to construct Brisas if and when the Authorization to Affect is re-issued and on-going permits or authorizations are obtained. Failure to raise the required funds will mean the Company will be unable to construct and operate Brisas, which would have a material adverse effect on the Company.

As of March 30, 2009, the Company had approximately $101 million in cash and investments. We currently do not generate revenue from operations and have historically financed operating activities primarily from the sale of common shares, other equity securities or debt securities. In the near-term, management believes that cash and investment balances are sufficient to enable the Company to fund its activities into 2010 (excluding any substantial Brisas construction activities).

Uncertainty regarding risks inherent in the mining industry could impact future operations.

Exploration for gold and other metals is speculative in nature, involves many risks and frequently is unsuccessful. Any exploration program entails risks relating to the location of economic ore bodies, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and regulatory approvals and the construction of mining and processing facilities at the mining site. Such exploration efforts may not result in the discovery of gold or other metals associated with gold and any mineralization discovered may not result in an increase of the Company s reserves. If ore bodies are developed, it can take a number of years and substantial expenditures from the initial phases of drilling until production commences, during which time the economic feasibility of production may change. Such exploration may not result in economically feasible commercial mining operations. Significant capital investment is required to achieve commercial production from exploration efforts. There is no assurance that the Company will have, or be able to raise, the required funds to engage in these activities or to meet its obligations with respect to the exploration properties in which it may acquire an interest. To the extent that the Company seeks to expand its exploration program or seek acquisition opportunities, it may experience problems associated with mineral exploration or developing mining projects or may not be able to find adequate acquisition opportunities. Any one or more of these factors or occurrence of other risks could cause us not to realize the anticipated benefits of an acquisition of properties or companies, and could have a material adverse effect on our financial condition and results of operations.

Uncertainty regarding global financial markets.

The downturn in the international financial markets, and the risk of prolonged global recessionary conditions, could adversely affect our financial condition. The market for new equity and debt financing is extremely limited and in some cases not available. Any inability by the Company to obtain the required financing in the future on favorable terms could have a material adverse effect on the Company s financial condition.

Risks arising from the bankable feasibility study and construction of Brisas.

The Bankable Feasibility Study and subsequent updates, including the March 2008 NI 43-101 report, were completed to determine the economic viability of the Brisas mineralized deposit. Many factors are involved in the determination of the economic viability of mining a mineralized deposit, including the delineation of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating cost estimates, construction, operation, permit and environmental requirements, currency exchange rates and the estimate of future gold prices. Capital and operating cost estimates are based upon many factors, including anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, ground and mining conditions and anticipated environmental and regulatory compliance costs.

While the Company is satisfied with the Bankable Feasibility Study as revised, each of these factors involves uncertainties and the making of assumptions and, as a result, the Company cannot give any assurance that the Bankable Feasibility Study and its subsequent updates will prove accurate in preparation, construction and development of Brisas or that any key finding or underlying assumption will not prove to be inaccurate for reason outside the control of management, including changes in costs as a result of the passage of time between the completion of the Bankable Feasibility Study, as revised, and the date construction commences. It is not unusual in new mining operations to experience unexpected problems during development. As a result, the actual cost and time of placing Brisas into production could differ significantly from estimates contained in the Bankable Feasibility Study as updated. Likewise, should Brisas be developed, actual operating results may differ from those originally anticipated which could have a material adverse effect on our financial condition and results of operations.

There are differences in U.S. and Canadian practices for reporting reserves and resources.

Our reserve and resource estimates are not directly comparable to those made by companies subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian accepted practice to report measured, indicated and inferred resources, which are not permitted in disclosure filed with the SEC by U.S. domestic issuers. In the U.S., mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Prospective U.S. investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, "inferred resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of "contained ounces" is permitted disclosure under Canadian securities laws; however, the SEC only permits issuers to report "resources" as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization, reserves and resources contained in this Annual Report may not be comparable to information made public by domestic U.S. companies subject to the reporting and disclosure requirements of the SEC. See Cautionary Note Regarding Resource and Reserve Estimates in this Annual Report.

Actual mineralization may vary from current estimates in the future.

Unless otherwise indicated, mineralization figures presented in this Annual Report and in our filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineral reserves and grades of mineralization on our properties. Until ore is actually mined and processed, mineral reserves and grades of mineralization must be considered only as estimates. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis that may prove to be unreliable. These estimates may require adjustments or downward revisions based upon actual production experience. In addition, due to geologic variations within areas mined, the grade of ore ultimately mined, if any, may differ from that indicated by the March 2008 NI 43-101 report. There can be no assurance that minerals recovered in small-scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Actual quality and characteristics of deposits cannot be fully assessed until mineralization is actually mined and, as a result, mineral reserves may change over time to reflect actual experience.

The resource estimates contained in this Annual Report have been determined and valued based on assumed future prices, cut-off revenue assumptions and operating costs that may prove to be inaccurate. Extended declines in market prices for gold or copper may render portions of our mineralization uneconomic and result in reduced reported mineralization or may adversely affect the commercial viability of Brisas. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our financial condition and results of operations.

Gold and copper projects are subject to all of the risks inherent in the mining industry.

Gold and copper projects are subject to all of the risks inherent in the mining industry, which include:

- environmental issues;

- industrial accidents;
- labor disruptions;
- social unrest;
- changes in capital and operating costs;

- fires, flooding and high-wall failure;
- inability to obtain suitable or adequate machinery, equipment or labor;
- unusual or unexpected geologic formations; and
- periodic interruptions due to inclement or hazardous weather conditions.

The realization of any of these risks could result in damage to, or destruction of, mineral properties and production facilities, personal injury, environmental damage, delays, monetary losses and legal liability any of which could have an adverse effect on our financial position and results of operations. Insurance covering such catastrophic liabilities is not maintained and will only be maintained in the future if available on a cost-effective basis.

Operating losses are expected to continue until we construct an operating mine.

We have experienced losses from operations for each of the last five years as the result of, among other factors, expenditures associated with corporate activities on Brisas, as well as other unrelated non-property expenses that are recorded in our consolidated statement of operations. We expect this trend to continue until sometime after Brisas is operational or the Company invests in an alternative project with commercial production. In addition, such losses may increase after we obtain additional financing and begin substantial construction of Brisas or invest in an alternative project. We can give no assurances that this trend will ultimately be reversed as a result of any operations at Brisas or elsewhere.

We may incur costs in connection with future reclamation activities that may have a material adverse effect on our earnings and financial condition.

We are required to obtain government approval of our plan to reclaim Brisas after any minerals have been mined from the site. The Brisas reclamation plan has been incorporated into the environmental studies submitted to and approved by the MinAmb. Reclaiming Brisas is expected to take place during and after the active life of the mine. In accordance with applicable laws, we have provided bonds or other forms of financial assurances to guarantee compliance with environmental and social measures designed to mitigate, reduce or eliminate the impact of our permitted activities for the initial phase of construction. We will provide additional bonds for the reclamation of the mine. We may incur costs in connection with these reclamation activities in excess of such bonds or other financial assurances, and those costs may have a material adverse effect on our earnings and financial condition. We expect to establish a reserve for future site closure and mine reclamation costs based on the estimated costs to comply with existing reclamation standards. There can be no assurance that our reclamation and closure accruals will be sufficient or that we will have sufficient financial resources to fund such reclamation and closure costs in the future.

The volatility of the price of gold and copper could have a negative impact upon our current and future operations.

The price of gold and copper has a significant influence on the market price of our common shares and our business activities. Fluctuation in gold and copper prices directly affects, among other things, the overall economic viability of Brisas, our ability to obtain sufficient financing required to construct Brisas, including the terms of any such financing, and the calculation of reserve estimates. The price of gold is affected by numerous factors beyond our control, such as the level of inflation, interest rates, fluctuation of the U.S. dollar and foreign currencies, supply and demand, sale of gold by central banks and other holders, political and economic conditions of major gold producing countries and existing inventories. The price of copper is more directly affected by global economic conditions, impacting industrial use and existing inventories. As of March 30, 2009, the closing price for gold was $916 per ounce and copper was $1.73 per pound. The following table sets forth the average of the daily closing price for gold and copper for the periods indicated as reported by the London Metal Exchange:

		YEAR ENDED DECEMBER 31,				
	5 Yr. Avg.	2008	2007	2006	2005	2004
Gold ($ per ounce)	$605	$872	$695	$603	$445	$ 410
Copper ($ per pound)	$2.48	$3.15	$3.23	$3.05	$1.67	$ 1.30

Sales of a significant number of our common shares in the public markets, or the perception of such sales, could depress the price of our common shares.

Sales of a substantial number of our common shares in the public markets could depress the price of our common shares and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales, or the perception of such sales, of our common shares would have on the market price of our common shares. The price of our common shares may also be affected by sales of our common shares by investors or by hedging and arbitrage trading activity.

We may raise funds for future operations through the issuance of common shares, debt instruments convertible into common shares or other equity-based instruments.

In order to finance the construction of Brisas or an investment in an alternative project, we may raise additional funds through the issuance of common shares, debt instruments convertible into common shares or other equity-based instruments, such as warrants. We cannot predict the size of any such future issuances of securities, or the effect, if any, that future issuances and sales of our securities will have on the market price of our common shares or the fair market value of the notes. Any transaction involving the issuance of previously authorized but unissued shares, or securities convertible into shares, will result in dilution, possibly of a substantial nature, to present and prospective holders of shares.

Our ability to generate the cash needed to pay interest and principal amounts on the notes and service any other debt depends on many factors, some of which are beyond our control.

Because we expect to incur substantial indebtedness to finance the development of Brisas, in order to fund our debt service obligations, including our existing senior subordinated debt, we will require significant amounts of cash. Unless and until production commences at Brisas or we acquire or develop other operating properties, cash to meet these obligations will be sourced from cash on hand or the issuance of additional equity or debt securities. If we are successful in commencing production at Brisas, our ability to generate cash from operations to meet scheduled payments or to refinance our debt will depend on our financial and operating performance which, in turn, is subject to the business risks described in this Annual Report, including the risks of operating mining properties in Venezuela and prevailing economic conditions. Some of these risks are beyond our control. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or to delay capital expenditures, sell assets, seek to obtain additional equity capital or restructure our debt.

The price of our common shares may be volatile.

Our common shares are publicly traded and are subject to various factors that have historically made their price volatile. The market price of our common shares may fluctuate based on a number of factors, including:

- economic and political developments in Venezuela, including any new regulatory rules or actions;
- our operating performance and financial condition;
- the performance of competitors and other similar companies;
- our ability to obtain the required permits and authorizations for Brisas;
- the public s reaction to our press releases, other public announcements and our filings with the various securities regulatory authorities;
- the price of gold and copper and other metal prices, as well as metal production volatility;
- changes in recommendations by research analysts who track our common shares or the shares of other companies in the resource sector;
- changes in general economic conditions;
- the arrival or departure of key personnel;
- acquisitions, strategic alliances or joint ventures involving us or our competitors;
- the public s reaction to press releases and other public announcements of our competitors regarding mining development or other matters;
- general worldwide and overall market perceptions of the attractiveness of particular industries;
- the dilutive effect of the sale by us of significantly more common shares in order to finance our activities; and
- other factors listed under "Cautionary statement regarding forward-looking statements."

In addition, the market price of the common shares is affected by many variables not directly related to our performance and that are therefore not within our control. These include other developments that affect the market for all resource sector shares, the breadth of the public market for the common shares, and the attractiveness of alternative investments. The effect of these and other factors on the market price of the common shares on The Toronto Stock Exchange ("TSX") and NYSE Amex (formerly known as AMEX) has historically made our share price volatile and suggests that our share price will continue to be volatile in the future.

Future hedging activities could negatively impact future operating results.

We have not entered into forward contracts or other derivative instruments to sell gold or copper that we may produce in the future. Although we have no near term plans to enter into such contracts or derivative instruments, we may do so in the future if required for project financing. Forward contracts obligate the holder to sell hedged production at a price set when the holder enters into the contract, regardless of what the price is when the product is actually mined. Accordingly, there is a risk that the price of the product is higher at the time it is mined than when we enter into the contracts, so that the product must be sold at a price lower than that which could have been realized had we not entered into the contract. This may result in the Company entering into option contracts for gold and copper to mitigate the effects of such hedging.

Changes in critical accounting estimates could adversely affect our financial results.

Our most significant accounting estimate relates to the carrying value of Brisas, which is more fully discussed in our annual consolidated financial statements and related footnotes, which are included in this Annual Report. Although we regularly review the net carrying value of our mineral properties, estimates of mineral prices, recoverable proven and probable reserves, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of mineral property costs. Where estimates of future net cash flows are not available and where other conditions suggest impairment, we assess whether carrying value can be recovered. Although we believe that we have made our best estimate of these factors as they relate to our mineral properties, it is possible that changes could occur in the near-term, which could adversely affect the future net cash flows to be generated from the properties.

Material weaknesses relating to our internal controls over financial reporting could adversely affect our financial results or condition and share price or the price of the notes.

While we believe there are no reportable material weaknesses in our internal controls as defined in Section 404 of The Sarbanes-Oxley Act of 2002 as of the date of this Annual Report, there can be no assurance that material weaknesses regarding our internal controls will not be discovered in the future. If so, this could result in costs to remediate such controls or inaccuracies in our financial statements. In addition, a material weakness in internal controls over financial reporting may result in increased difficulty or expense in transactions such as financings, and many result in an adverse reaction by the market generally that would result in a decrease of our share price or the price of the notes.

As a foreign private issuer, we are permitted to file less information with the SEC than a company incorporated in the U.S.

We are a foreign private issuer under the Exchange Act and, as a result, are exempt from certain rules under the Exchange Act. These rules include the proxy rules that impose certain disclosure and procedural requirements for proxy solicitations. In addition, we are not required to file periodic reports and financial statements with the SEC as frequently, promptly or in as much detail as U.S. companies with securities registered under the Exchange Act. We are not required to file financial statements prepared in accordance with U.S. GAAP (although we are required to reconcile our financial statements to U.S. GAAP). We are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. Moreover, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares.

We could lose our foreign private issuer status as a result of future sales of equity securities. If a majority of our common shares are not held directly or indirectly by non-residents of the U.S., we will no longer be exempt from the rules and regulations discussed above and, among other things, we will not be eligible to use the multijurisdictional disclosure system adopted by the U.S. and Canada or other foreign issuer forms and will be required to file periodic reports, proxy statements and financial statements as if we were a company incorporated in the U.S.. We will also lose the ability to rely upon exemptions from NYSE Amex corporate governance requirements that are available to foreign private issuers. The costs, expenses and burdens incurred in fulfilling these additional regulatory requirements could be significant and could have an adverse effect on our financial position and results of operations.

U.S. Internal Revenue Service designation as a passive foreign investment company may result in adverse U.S. tax consequences to U.S. shareholders.

U.S. taxpayers should be aware that the Company has determined that it was a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC") for the taxable year ended December 31, 2008, and it may be a PFIC for all taxable years prior to the time Brisas is in production. The Company does not, however, believe that any of its subsidiaries were PFICs as to any shareholder of the Company for the taxable year ended December 31, 2008. For taxable years in which the Company is a PFIC, any gain recognized on the sale of the Company's common shares and any "excess distributions" (as specifically defined) paid on the Company's common shares must be ratably allocated to each day in a U.S. taxpayer s holding period for the common shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer s holding period for the common shares generally will be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

Alternatively, a U.S. taxpayer that makes a timely and effective "QEF election" generally will be subject to U.S. federal income tax on such U.S. taxpayer s pro rata share of the Company's "net capital gain" and "ordinary earnings" (calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by the Company. For a U.S. taxpayer to make a QEF election, the Company must agree to supply annually to the U.S. taxpayer the PFIC Annual Information Statement and permit the U.S. taxpayer access to certain information in the event of an audit by the U.S. tax authorities. The Company will prepare and make the statement available to U.S. taxpayers, and will permit access to the information. As a second alternative, a U.S. taxpayer may make a "mark-to-market election" with respect to a taxable year in which the Company is a PFIC and the common shares are "marketable stock" (as specifically defined). A U.S. taxpayer that makes a mark-to-market election generally will include in gross income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares as of the close of such taxable year over (b) such U.S. taxpayer s adjusted tax basis in such common shares.

The determination of whether the Company and any of its subsidiaries will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether the Company and any of its subsidiaries will be a PFIC for any taxable year generally depends on the Company's and its subsidiaries assets and income over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this Annual Report. Accordingly, there can be no assurance that the Company and any of its subsidiaries will not be a PFIC for any taxable year.

Attracting and retaining key personnel in the future could have a significant impact on future operating results.

We are and will be dependent upon the abilities and continued participation of key management personnel, as well as the significant number of new personnel that will be necessary to manage any construction and operation of Brisas. If the services of our key employees were lost or we are unable to obtain the new personnel necessary to construct, manage and operate Brisas, it could have a material adverse effect on our future operations.

We may experience difficulties managing our anticipated growth.

We anticipate that if we construct Brisas or another project and commence production; we will experience significant growth in our operations resulting in increased demands on our management, internal controls and operating and financial systems. There can be no assurance that we will successfully meet these demands and effectively attract and retain additional qualified personnel to manage our anticipated growth. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We do not intend to pay any cash dividends in the foreseeable future.

We have not declared or paid any dividends on our common shares since 1984. We intend to retain earnings, if any, to finance the growth and development of our business and do not intend to pay cash dividends on the common shares in the foreseeable future. Any return on an investment in our common shares will come from the appreciation, if any, in the value of the common shares. The payment of future cash dividends, if any, will be reviewed periodically by the Board of Directors and will depend upon, among other things, conditions then existing including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and conditions and other factors.

Additional risks.

Investors in the U.S. or in other jurisdictions outside of Canada may have difficulty bringing actions and enforcing judgments against the Company, our Directors, our executive officers and some of the experts named in this Annual Report based on civil liability provisions of federal securities laws or other laws of the U.S. or any state thereof or the equivalent laws of other jurisdictions of residence.

We are organized under the laws of the Yukon Territory, Canada. Some of our directors and officers, and some of the experts named in this Annual Report, are residents of Canada or otherwise reside outside of the U.S. and all or a substantial portion of their assets, and a substantial portion of our assets, are located outside of the U.S. As a result, it may be difficult for investors in the U.S. or outside of Canada to bring an action in the U.S. against directors, officers or experts who are not resident in the U.S. It may also be difficult for an investor to enforce a judgment obtained in a U.S. court or a court of another jurisdiction of residence predicated upon the civil liability provisions of Canadian security laws or U.S. federal securities laws or other laws of the U.S. or any state thereof against us or those persons.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

The Company is engaged in the business of exploration and development of mining projects and is presently focused primarily on its most significant asset, the Brisas Project, and to a lesser extent the exploration of its Choco 5 property, both located in Bolivar State, Venezuela. The Company has no commercial production at this time.

Regulation of the Venezuelan mining sector is in transition. A new mining law has been discussed by the current administration and the National Assembly since 2005. Although various alternative changes have been addressed publically in the past, the specific provisions of any new law is still unclear and the government has not yet announced when any new mining law will be approved and enacted. In May 2008, as more fully discussed below, the Company received notification from the MinAmb of its decision to revoke the Authorization to Affect. Since we received the revocation notice, management has communicated with members of MinAmb, MIBAM and other government officials with the intention of obtaining a resolution to the impasse. However, as of the date of this report, the Company has not been able to confirm how the government intends to proceed regarding the development of Brisas. For a description of the Company's organizational structure and office locations, see "General Information - Corporate Information" and " - the Company."

PROPERTIES

Brisas Project

Location

The Brisas Project is located in the Km 88 mining district in the State of Bolivar in southeastern Venezuela approximately 373 kilometers (229 miles), by paved highway, southeast of Puerto Ordaz (Ciudad Guayana). The project, accessible by an all-weather road, is 5 kilometers west of the Km 88 marker on Highway 10.

The primary Brisas property is a 500-hectare land parcel consisting of the Brisas alluvial concession and the Brisas hardrock concession beneath the alluvial concession (the "Brisas concessions"). Together these concessions contain substantially all of the mineralization identified in the Bankable Feasibility Study, as updated. Brisas also includes a number of other existing concessions (such as the El Pauji concession) or pending applications for concessions, alfarjetas, CVG work contracts, land use authorizations or easements adjacent to or near the Brisas concessions for the mining and milling facility, related infrastructure and future needs totaling as much as 13,000 hectares. In the third quarter of 2008 the Company received accreditation letters of technical compliance from MIBAM for all of the properties that comprise Brisas.

Brisas Hardrock Concession Contains approximately 97% of Brisas Mineralization

The Brisas hardrock concession (which is beneath the Brisas alluvial concession) is for the exploitation of hardrock gold, copper and molybdenum and was granted by MEM (now MIBAM) through a title published in the Official Gazette No. 36,405 on March 3, 1998. In 1998, the Company also made application for the silver mineralization contained within the area of this concession. The Brisas hardrock concession is the main ore-body, comprising approximately 97% of the gold and 100% of the copper mineralization contained within the properties.

The Brisas hardrock concession is an exploitation concession with a term of 20 years and two renewal periods of 10 years each, at the discretion of MIBAM. The hardrock concession provides for up to a 4% tax on gold sales and up to a 7% mine mouth tax on copper production.

Brisas Alluvial Concession Contains approximately 3% of Brisas Gold Mineralization.

The Brisas alluvial concession was acquired by the Company through the acquisition of BRISAS in 1992. The Brisas alluvial concession is for the exploitation of alluvial gold, with a 3% tax on gold sales, granted by MEM through a title published in the Official Gazette No. 33,947 on April 18, 1988. In 1998, the Company also made application to MEM for the copper and silver mineralization contained within the area of this concession.

The Brisas alluvial concession mineralization is low-grade and is uneconomic on a stand-alone basis. When this mineralization is combined with the Brisas hardrock mineralization it represents approximately 3% of the total Brisas Project mineralization and is economic due to economies of scale. The Brisas alluvial concession provides MIBAM or its designee the right (referred to as a "special advantage" to Venezuela) to acquire 20% of the company organized by the alluvial concession holder to perform extraction activities within the concession. Venezuelan legal counsel has advised us that to the best of their knowledge MIBAM have never enforced such provisions contained in similar concessions. For this reason, it is unclear how the value of the twenty percent (20%) of the alluvial concession would be determined, in the event MIBAM chose to exercise such right pursuant to the alluvial concession.

The Brisas alluvial concession is an exploitation concession with a term of 20 years and two renewal periods of 10 years each, at the discretion of MIBAM. On October 17, 2007, pursuant to Article 25 of the Mining Law, the Company submitted an application to extend the Brisas Alluvial Concession, which was set to expire April 18, 2008, for another 10 years. Article 25 provides that, if in compliance, a concession holder may request an extension with the MIBAM within the above three-year term application which, in any case, shall be submitted six months prior to expiration of the initial term and the Ministry must decide within this same six month period. The same Article 25 provides that if no notice is given to the petitioner or the Ministry does not respond to the extension application, it is understood that the petition has been approved and the extension has been granted. MIBAM did not respond to our extension application within the six month time period provided for in Article 25 of the Mining Law. As a result, Venezuelan legal counsel has advised the Company that our extension application was automatically approved due to the positive silence provision set forth in Article 25 of the Mining Law.

El Pauji Concession To be utilized for Infrastructure

The El Pauji alluvial gold concession is for the exploitation of alluvial gold granted by MEM through a title published in the Official Gazette No. 334,011 on July 20, 1988. The Company has an easement for the El Pauji concession for Brisas Project infrastructure purposes approved in both the operating plan by MIBAM in 2003 and the ESIA by MinAmb in 2007. Similar to the Brisas Alluvial Concession, the El Pauji concession had an initial term of 20 years and two renewal periods of 10 years each, at the discretion of MIBAM. The Company has a power of attorney to manage the concession on behalf of the concessionaire and, in accordance with Article 25 of the Mining Law, filed an application to extend the concession for another 10 years on January 17, 2008, following the same procedure utilized for the Brisas Alluvial Concession. As was the case with the Brisas Alluvial Concession, MIBAM did not respond to the extension application within the six month time period provided for in Article 25 of the Mining Law. Venezuelan legal counsel advised the Company that the extension application was automatically approved again, due to the positive silence provision set forth in Article 25 of the Mining Law.

Tenure

Generally a concession represents a privilege, license or mining title granted by MIBAM or its predecessor Ministry of Energy and Mines ("MEM"), pursuant to Venezuelan mining law, to explore and, if warranted, produce minerals from a specified property. An alfarjeta is a right similar to a concession except that the area of the land parcel is insufficient in size to be designated a concession. A CVG work contract is similar to rights granted pursuant to a concession except, contract law governs such rights. In 2003 CVG's authority to grant new mining contracts was eliminated. Land use authorizations and easements are generally the right to temporarily occupy land required for mining activities. See "Venezuelan Mining, Environment and Other Matters."

Status

MIBAM approved the Brisas operating plan during 2003 and contained within the operating plan are, as noted above, a number of existing or pending applications for concessions, alfarjetas, CVG work contracts, land use authorizations or easements, adjacent to or near the Brisas concessions. These additional land parcels comprise the majority of the land required for the mining and milling facility and related infrastructure contemplated in the Bankable Feasibility Study, as revised. In the third quarter of 2008 the Company received accreditation letters of technical compliance from MIBAM for all of the properties that comprise Brisas.

MIBAM approval of the Brisas operating plan was a prerequisite for submitting the Brisas Environmental and Social Impact Study for the Exploitation and Processing of Gold and Copper Ore (Estudio de Impacto Ambiental y Sociocultural) ("ESIA") to MinAmb. MinAmb approved the ESIA in early 2007 and in March 27, 2007 issued the Authorization to Affect. The Authorization to Affect provided for the commencement of construction for certain infrastructure work, including various construction activities at or near the mine site, but not the construction of the mill and the exploitation of the gold and copper mineralization at Brisas.

Based on the issuance of the Authorization to Affect in 2007, we commenced significant pre-construction procurement efforts with the assistance of SNC-Lavalin awarding contracts for Brisas site prep and construction camp facilities and placing orders for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors and other related processing equipment, early-works construction equipment and various other site equipment totaling approximately $125.3 million, accelerated detailed project engineering, hired a number of senior technical staff, completed the sale of approximately $103.5 million of convertible notes and $74 million in new equity, launched a number of environmental and social initiatives and commenced preparation of the Brisas site for construction activities.

The Authorization to Affect mandated that before commencing significant permitted activities we were required to complete an administrative procedure by signing on-site what is referred to as an initiation act with MinAmb representatives which indicates that all conditions precedent to commencing activities had been met, documented our understanding of the obligations throughout the term of the authorization and certified that the permitted activities could in fact commence. The request for the approval of the initiation act, was submitted shortly after the Authorization to Affect was approved and requested multiple times thereafter. However, the MinAmb did not act on our requests.

In May 2008, the Company received notification from the MinAmb of its decision to revoke the Authorization to Affect. MinAmb referenced in its formal notice the existence of environmental degradation and affectation on the Brisas property, the presence of a large number of miners on the property and the Imataca Forest Reserve as the basis for their decision. Venezuelan legal counsel has advised management that the Authorization to Affect was granted to our Venezuelan subsidiary by MinAmb, a competent authority, following the corresponding legal procedure and in accordance with applicable laws and regulations. At the time the Authorization to Affect was issued, there was no legal norm prohibiting MinAmb from authorizing performance of mining activities in the area of the Brisas Project. Further, in response to the various points contained within the revocation notice, Venezuelan legal counsel has advised management that the revocation of the Authorization to Affect is groundless and legally unsupported.

Shortly after the revocation the Company filed an appeal with the Minister of MinAmb outlining our belief as to the factual flaws referenced in the revocation and requested the Minister to reinstate the Company s Authorization to Affect. The Minister of MinAmb has not yet issued an official decision regarding our appeal and on advice of Venezuelan legal counsel and in order to protect our rights under Venezuelan law, the Company filed an appeal with the Political Administrative Chamber of the Venezuelan Supreme Court on March 25, 2009. Although the filing in the Supreme Court is more formal that the appeal filed with MinAmb, the substance of our arguments and the merits of our position remain substantially the same.

Since we received the revocation notice, management has communicated with members of MinAmb, MIBAM and other government officials with the intention of obtaining a resolution to the impasse. A number of alternatives have been discussed with government officials. Although these discussions appear to be consistent with the proposed changes to the mining law and mining policies that have been addressed publically in the past 12 months, the final provisions that might be enacted are still unclear.

We believe that (1) through the new mining law or another legal instrument the Venezuelan government may seek to participate in all mining projects through a state company or joint venture, (2) if the government participates in the mining projects, it may pay its pro rata share of investments to date and its share of future capital costs relating to the projects, and (3) the government believes that the Brisas Project and the Las Cristinas project, which is contiguous and to the north, should be combined into a single project in which the benefits to all participants, including the local communities and the government, will be maximized. Until the government clearly and unequivocally announces (1) the provisions of the new mining law and policies and, (2) its intentions regarding the Brisas stand alone project or the Brisas/Las Cristinas combined project, we can give no assurance as to what the outcome will be.

We believe there are three courses of action available to us in Venezuela at this time:

- resolve with the Venezuelan government the current status of the Brisas Project and proceed with our development with the support of the government;
- seek a financial settlement with the Venezuelan government if development is not permitted to proceed on terms acceptable to us; or

- seek remedies either under Venezuela s domestic legal system or via bilateral investment treaties that we believe protect investments such as ours in Venezuela.

It is possible that the government and the new mining law, when approved, will permit the Company to continue construction of and to operate the Brisas Project on a stand-alone basis without the participation of the government or government-sponsored third parties.

If the government seeks to enter into mixed enterprise joint ventures with mining companies operating in Venezuela, we believe it will be possible that the Company and the Venezuelan government could reach an agreement or arrangement on acceptable terms with respect to an enterprise through which the Company and Venezuela jointly construct and operate the Brisas Project or a combined Las Cristinas and Brisas Project.

If an acceptable agreement or arrangement is not offered by the government to the Company, we would seek to negotiate with the Venezuelan government an acceptable amount of compensation for our investment and rights in the Brisas Project.

If we and the Venezuelan government were unable to reach an agreement as to a mutually acceptable amount of compensation or if the impasse continues, we would pursue claims under Venezuela s domestic legal system or through arbitration under bilateral investment treaties entered into between Venezuela, Canada and Barbados, for compensation that will reflect our approximately $250 million investment plus interest over our 17 year investment period, as well as a claim for lost profits reflecting the economic conditions prevalent at the time of the revocation of the permit.

As a result of the revocation of the Authorization to Affect, the Venezuelan government s inability to clearly articulate its intentions related to Brisas and the uncertainty of the future time schedule, our board of directors authorized management to evaluate the status of $44.7 million (net of commitments) of equipment ordered for the Brisas Project regarding the sale or redeployment of all or a portion of the remaining equipment. In late 2008, the Company sold a portion of the equipment which would have been used for the Brisas Project. We believe that the sale of this equipment will not impact the start-up of the Brisas Project to the extent the current delays in Venezuela are resolved.

The Company continues its commitment for the manufacture of one SAG mill and two ball mills, related motors and peripheral equipment, demonstrating our current commitment to the Brisas Project. Initially, the Brisas Project would be expected to proceed with reduced capital costs and 35,000 tonnes per day through-put as a result of this sale. This modification should not impact the Company s ability to increase production to 70,000 tonnes per day through-put or greater thereafter. See "Item 4. Information on the Company - Properties - Project Work to Date."

The Company retains its concession and contract rights, holds an operating plan approved by the MIBAM in 2003, holds an ESIA approved by MinAmb in early 2007, and is in receipt of accreditation letters of technical compliance for all of the properties that comprise Brisas from MIBAM in the third quarter of 2008. In this regard, the Company reviewed the amounts recorded on its Consolidated Balance Sheets related to the Brisas Project for potential impairment and has concluded that there was no impairment of these amounts as of December 31, 2008. It is unclear how future actions by the government will effect operations or impair the carrying value of the capitalized costs associated with Brisas.

Regional Infrastructure

The Brisas site is located in the State of Bolivar, in southeastern Venezuela. The nearest major city is Puerto Ordaz, with over a million inhabitants in the surrounding region. Puerto Ordaz is the center of major industrial developments in the area, including iron and steel mills, aluminum smelters, iron and bauxite mining and forestry. Major hydroelectric generating plants on the Caroni River, providing more than 20,000 Mw of electricity, support these industries. Puerto Ordaz has major port facilities and is accessible to ocean-going vessels from the Atlantic Ocean, via the Orinoco river. There are also port facilities 428 km northwest of Puerto Ordaz on the Caribbean coast near Barcelona, which would likely be the port of entry for most construction, mining and milling equipment.

Puerto Ordaz is a modern urban center with good road and air connections to the rest of Venezuela. There are regularly scheduled flights to Caracas and other major cities several times daily. The highway system within Venezuela is generally good, with paved roads in good condition providing access to within 5 km of Brisas. A four-lane highway runs from Puerto Ordaz, northwest to both Barcelona and the port of Guanta, and for 55 km south to Upata where it becomes a two-lane highway to Km 88 and on into Brazil. A 400 Kv power line runs through the community of Las Claritas, nearby Brisas, with a transformer station located 3 km from the property.

Geology

Brisas is within the Proterozoic granite-greenstone terrain of the Guyana shield. The shield covers eastern Colombia, southeastern Venezuela, Guyana, Suriname, French Guiana and northeastern Brazil. The terrain is a thick section of andesite to dacite volcanics intruded by numerous granite stocks and batholiths. Several periods of deformation, metamorphism, and mineralization can be documented within this terrain.

The Brisas property is divided into weathered and unweathered material. Weathered material or saprolite is further defined by the degree of oxidation into oxide saprolite and sulfide saprolite. Both contain clays and quartz with the oxide saprolite having iron oxides such as hematite and goethite while in the sulfide saprolite the iron is present as pyrite. The unweathered material consists of andesite or dacite tuffs that are further subdivided based on the presence or absence of mineral crystals and lithic or lapilli fragments. Unweathered intrusive material includes a tonalite stock and basalt dikes and sills. The tuffs strike northerly and dip 30 to 35 degrees to the west. No faulting can be recognized within the deposit.

The mineralization is stratabound and strataform within a 200-meter thick series of tuffs marked by rapid horizontal and vertical facies changes. The gold/copper mineralization is over 1,900 meters long and 500 to 900 meters wide. Mineralization continues for an unknown distance down dip to the west, north and south, as well as, below the current deposit. Three styles of mineralization are seen: (1) massive sulfide-quartz-tourmaline breccia with pyrite, chalcopyrite and gold in an outcrop referred to as the Blue Whale, (2) stratabound, disseminated pyrite-gold/copper mineralization and (3) quartz-calcite high angle veins marked by erratic but high gold values. The disseminated mineralization is characterized by a calcite-quartz-epidote-sulfide alteration and constitutes the majority of the economic mineralization. There appears to be no relationship between the disseminated mineralization and the high angle veins. The mineralization to the north is generally pyrite-chalcopyrite-gold with the copper content decreasing to the south until in the southern portion of the deposit the copper is a minor constituent of the mineralization. Mineralization is open down dip to the west and to the north.

Bankable Feasibility Study and subsequent NI 43-101 updates

Management completed the original Bankable Feasibility Study in 2005. In March 2008, the Company, with the assistance of Pincock, Allen & Holt ("PAH"), updated and prepared a new National Instrument 43-101 report for the Brisas Project, which is summarized below. The Company and SNC-Lavalin, the project s EPCM (Engineering, Procurement, and Construction Management) contractor, updated the capital costs contained therein.

The 2008 NI 43-101 report utilizes $600 per ounce gold and $2.25 per pound copper for the base-case economic model and at such prices, cash operating costs (net of copper byproduct credits) are estimated at $120 per ounce of gold. Total costs including cash operating costs, exploitation taxes, initial capital costs (excluding sunk cost), and sustaining capital costs are estimated at $268 per ounce of gold.

The current operating plan assumes a large open pit mine containing proven and probable reserves of approximately 10.2 million ounces of gold and 1.4 billion pounds of copper in 483 million tonnes of ore grading 0.66 grams of gold per tonne and 0.13% copper, at a revenue cutoff grade of $3.54 per tonne using a gold price of $470 per ounce and a copper price of $1.35 per pound. The operating plan anticipates utilizing conventional truck and shovel mining methods with the processing of ore at full production of 75,000 tonnes per day, yielding an average annual production of 457,000 ounces of gold and 63 million pounds of copper over an estimated mine life of approximately 18.25 years. The strip ratio (waste to ore) is estimated at 2.24:1. The mining and processing methods are all based on conventional technology and, at present, no new or unproven technology is expected to be employed.

The estimated initial capital cost to construct and place Brisas into production totals $731 million excluding working capital, critical spares and initial fills of approximately $53 million and ongoing life-of-mine requirements estimated at $269 million. Initial capital cost estimates exclude value added taxes of approximately $54 million. Tax exonerations or tax payment holidays are available for various taxes including value added tax and import duty tax on the initial capital costs. Management plans to submit the required applications for all available exonerations and expects to obtain such exonerations prior to the construction of the project. As a result, the cost of such taxes and import duties are not included in the initial costs of the project. There can be no assurances that such exonerations will be obtained, the result of which would be to increase initial capital and operating costs.

Because recovery parameters or economic parameters vary by metal grade and Brisas contains both gold and copper, management determined that a "cutoff grade" calculation would be overly cumbersome and rely on the averaging of certain parameters. As a result, the Company utilizes a cost based approach, whereby it estimates all costs associated with the proposed operation. These costs are then compared to the estimated revenue contained in each tonne of ore to be processed or hauled to the waste rock facility. An internal cutoff value of $3.54 per tonne is used for the reserve calculation and a breakeven cutoff value of $4.37 per tonne is used to determine the size of the ultimate pit during the pit optimization analysis. Management believes this is a more accurate and manageable method than the "cutoff grade" approach.

The estimated costs considered to develop the cutoff values are as follows:

Cost Description	Measure	Internal Cutoff Value	Breakeven Cutoff Value
Mining	$/ore-tonne	$ -	$ 0.83
Processing	$/ore-tonne	3.00	3.00
General and Administrative	$/ore-tonne	0.43	0.43
Reclamation	$/ore-tonne	0.11	0.11
Cutoff Value	$/ore-tonne	$ 3.54	$ 4.37

The difference between the internal and breakeven cutoff values is the cost of mining, which is considered sunk because the decision to process the material or place it in the waste rock facility is made at the pit rim after the cost of mining has occurred. The internal cutoff value per tonne is compared to the revenue value per tonne that can be generated if the material is processed. If the internal cutoff value per tonne is less than or equal to the revenue per tonne then the material is processed, if the internal cutoff value per tonne is more than the revenue per tonne then the material is hauled to the waste rock facility. The estimated revenue value for each tonne processed is equivalent to the following: (tonnes times metal grade times metal price times mill recovery rate) less transportation and offsite treatments costs (including any smelting and refining charges, smelter recoveries, deductions and price participation costs). The same cutoff values were applied across all ore material types regardless of material destination whether processed or placed on the waste rock facility. The difference in haul times to each ore material destination was determined to be insignificant. Utilizing Whittle pit optimization software, Whittle pits were generated at various gold and copper price increments. The final pit design utilized a gold price of $470 per ounce and a copper price of $1.35 per pound. Phase pit designs internal to the final pit were developed and a mine production schedule was generated for the life of the project.

Operating supplies are available primarily in Venezuela and from other South American countries. Power is available from an electrical substation which is connected to a transmission line that passes within a few kilometers of the project site. Abundant water is available in the area, with Brisas' fresh water requirements being met by water pumped from the pit dewatering system, and by rainfall recovered in the tailings pond. On-site accommodations will be provided for employees, who will be drawn both from the local area, and from the industrialized area around Puerto Ordaz. Over 2,000 personnel will be needed for the construction of the project and employment will peak at over 900 operating personnel.

Mineral Resource and Reserve Estimate

Cautionary Note to U.S. Investors. We advise U.S. investors that definitions contained in CSA National Instrument 43-101 differ in certain respects from those set forth in the SEC Industry Guide 7.

In March 2008 PAH assisted the Company in the calculation of an updated mineral resource and reserve estimate in accordance with CSA National Instrument 43-101 which is summarized in the tables below. The qualified persons involved in the property evaluation and resource and reserve estimate were Susan Poos, P.E. of Marston & Marston Inc. and Richard Lambert, P.E., Richard Addison, P.E. and Bart Stone, C.P.G. of Pincock, Allen & Holt.

This report uses the terms "measured," "indicated" and "inferred" resource. We advise U.S. investors that while these terms are recognized by Canadian regulations, the SEC does not recognize them. U.S. investors are cautioned not to assume that the mineralization not already categorized as mineral reserves, will ever be converted into reserves. Further, an "inferred resource" has a great amount of uncertainty as to its existence and its economic and legal feasibility. Under Canadian disclosure rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. U.S. investors are cautioned not to assume that part or all of an inferred resource exists, is economically or legally mineable or that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Also, disclosure of contained ounces is permitted under Canadian regulations however the SEC generally requires mineral resource information to be reported as in-place tonnage and grade.

Mineral Resource Estimate

The estimated measured and indicated mineral resource utilizing an off-site smelter process is summarized in the following table and includes the mineral reserve estimate shown in the following section:

(kt=1,000 tonnes)		Measured			Indicated			Measured and Indicated	
Au Eq Cut-off Grade	kt	Au (gpt)	Cu (%)	kt	Au (gpt)	Cu (%)	kt	Au (gpt)	Cu (%)
0.40	256,483	0.71	0.12	300,367	0.62	0.13	556,850	0.66	0.13

(In Millions)		Measured			Indicated			Measured and Indicated	
Au Eq Cut-off Grade		Au oz.	Cu lb.		Au oz.	Cu lb.		Au oz.	Cu lb.
0.40		5.853	674		5.986	888		11.839	1,562

The inferred mineral resource, based on an off-site smelter process (0.4 gram per tonne gold equivalent cut-off), is estimated at 121.0 million tonnes containing 0.590 grams gold per tonne and 0.12 % copper, or 2.28 million ounces of gold and 316 million pounds of copper. The mineral resource and gold equivalent (AuEq) cut-off is based on $400 per gold ounce and $1.15 per pound copper.

Mineral Reserve Estimate

Brisas is estimated to contain a proven and probable mineral reserve of approximately 10.2 million ounces of gold and 1.4 billion pounds of copper. The estimated proven and probable mineral reserve utilizing traditional flotation and off-site smelter processes is summarized in the following table:

Class	Reserve tonnes (thousands)	Au Grade (gpt)	Cu Grade (%)	Au ounces (thousands)	Cu pounds (millions)	Waste tonnes (thousands)	Total tonnes (thousands)	Strip Ratio
Proven	237.7	0.71	0.12	5,429	643			
Probable	245.1	0.61	0.14	4,800	746			
Total	482.8	0.66	0.13	10,229	1,389	1,080.3	1,563.1	2.24

Note that the mineral resource estimate does not represent material that exists in addition to the mineral reserve. The mineral reserve estimates disclosed above which are designated as commercially viable are included in and a part of the mineral resource estimates shown in the previous section.

The mineral reserve (within a pit design) has been estimated in using average recovery rates for gold and copper of approximately 83% and 87% respectively, metal prices of U.S. $470 per ounce gold and U.S. $1.35 per pound copper and an internal revenue cut-off of $3.54 per tonne.

BRISAS PROJECT WORK TO DATE

Since acquiring Brisas in 1992, the Company has spent in excess of $250 million on the project (including capitalized costs and equipment recorded in the Consolidated Balance Sheet and financial, legal and engineering costs incurred in support of our Venezuelan operations recorded in the Consolidated Statement of Operations). In addition, approximately $30.4 million remains contractually committed for previously ordered equipment as of December 31, 2008. During the three years ended December 31, 2008, the Company invested the following net amounts for property, plant and equipment related to Brisas 2008- $46.6 million, 2007- $55.1 million and 2006- $15.7 million.

The costs expended include property and mineral rights, easements, acquisition costs, equipment expenditures, litigation settlement costs, general and administrative costs and extensive exploration costs including geology, geophysics and geochemistry, approximately 975 drill holes totaling over 200,000 meters of drilling, independent audits of drilling, sampling, assaying procedures and ore reserves methodology, environmental baseline work/socioeconomic studies, hydrology studies, geotechnical studies, mine planning, advanced stage grinding and metallurgical test work, tailings dam designs, milling process flow sheet designs, ESIA and Bankable Feasibility Study, including a number of subsequent updates, and an independent CSA National Instrument 43-101 report which was most recently updated in March 2008. Detailed engineering for Brisas was approximately 85% complete at the date of this report.

Based on the issuance of the Authorization to Affect in 2007, we commenced significant pre-construction procurement efforts with the assistance of SNC-Lavalin awarding contracts for Brisas site prep and construction camp facilities and placing orders for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors and other related processing equipment, early-works construction equipment and various other site equipment totaling approximately $125.3 million, accelerated detailed project engineering, hired a number of senior technical staff, completed the sale of approximately $103.5 million of convertible notes and $74 million in new equity, launched a number of environmental and social initiatives and commenced preparation of the Brisas site for construction activities.

We have enjoyed broad support from the local communities, including a Community Liaison Commission created with representatives from each of the Community Counsels for the 21 local and surrounding communities, the Construction Union, the Heavy Machinery Union, the local Chamber of Commerce, MIBAM, the local Mayor s office representative and SNC Lavalin.

We funded and constructed a medical facility and a computer and internet center, refurbished and expanded a local school and a Community Liaison Commission facility, constructed new recreational and sport facilities, supported a number of farming and community development programs and continue to maintain the ongoing expenditures associated with these programs and facilities, including the Brisas Community Sport Program whereby over 800 children actively participate in daily supervised activities. The Company also continues to monitor environmental parameters related to Brisas including monthly air and water quality studies, climate and hydrological information and biodiversity assessments.

As a result of the revocation of the Authorization to Affect and the Venezuelan government s inability to clearly articulate its intentions related to Brisas and the uncertainty of the future time schedule, the Company suspended the detailed engineering work being performed by SNC in mid 2008 and curtailed substantially all development expenditures related to the Brisas Project. In late 2008, the Company sold one SAG mill, two ball mills (35,000 tonne per day through-put) and related motors slated being manufactured for the Company's Brisas Project for approximately $41.1 million. As a result of the sale the Company recovered approximately $19.2 million of progress payments and the purchaser assumed the Company's remaining payment obligations related to the equipment of approximately $21.9 million.

2009 BRISAS WORK PLAN

The Company continues to employ a number of people who facilitate the Company s ongoing environmental monitoring programs as well as social and community programs that the Company has previously committed. These programs and the related financial commitment to the local and regional area may be reduced or eliminated in the future depending on the ultimate resolution of the Venezuelan government s plan to proceed regarding the development of Brisas.

Management believes that the best use for the equipment currently being manufactured for Brisas is the deployment of that equipment on Brisas. However management continues to act on the Board of Director's authorization to evaluate the status of $44.7 million (net of commitments) of equipment ordered for the Brisas Project regarding the sale or redeployment of a portion or all of the remaining equipment. The Company continues its commitment for the manufacture of one SAG mill and two ball mills, related motors and peripheral equipment, demonstrating our current commitment to the Brisas Project. Initially, the Brisas Project would be expected to proceed with reduced capital costs and 35,000 tonnes per day through-put as a result of the previously noted sale. This sale and modification to the project startup is not expected to impact the Company s ability to increase production to 70,000 tonnes per day through-put or greater thereafter, if the Company constructs Brisas.

Choco 5 Property

The Choco 5 property is a grass-root gold and other minerals exploration target also located in Venezuela.

LOCATION

The Choco 5 property is located in the State of Bolivar, Guayana region. The property is a 5,000 hectare parcel located 24 kilometers west of the mining community of El Callao (population approximately 25,000) located in the El Callao gold mining district and 200 kilometers south of Puerto Ordaz, the nearest major city. Hydroelectric power from generating plants on the Caroni River, near Puerto Ordaz, is connected to El Callao with a 400 kv power line running through the nearby Choco 4 property. The El Callao mining district is an area with considerable mining activity for the past 125 years. Currently active are companies such as Rusoro, which holds Choco 4 (exploration project) and Choco 10 (gold producing project). Both properties are adjacent to Choco 5. In addition, Minerven (a wholly owned subsidiary of CVG)is also active in the area.

TENURE

The underlying mining title or concession for the area known as the Choco 5 property was issued by MEM to CVG on May 11, 1993. The concession was subsequently leased by CVG to Minerven pursuant to an agreement dated December 22, 1998 (the "Choco 5 Lease"). On June 28, 2000, Minerven subleased the Choco 5 Concession to the Company (the "Choco 5 Sublease"). See "Venezuelan Mining, Environment and Other Matters."

The Choco 5 concession is a vein (hardrock) and alluvial concession for the exploration and subsequent exploitation of primarily gold and copper as well as other minerals, with a term of 20 years, starting with the publication of its exploitation certificate, subject to two possible 10 year extensions up to a maximum term of 40 years. The Company s on-going obligations pursuant to the Choco 5 Sublease (which incorporates the terms of the Choco 5 Lease and Choco 5 concession) included variable royalties staged over the life of the project on the value of gross production of gold and other minerals and on the value of proven reserves ranging from 0.35 to 2.3 %, quarterly payments of approximately $5,000 until commercial production and the obligation to keep the property in good standing during the term of the agreement.

REGIONAL INFRASTRUCTURE

The Choco 5 property has substantially the same regional infrastructure as the Brisas Project, being the same highway system and regional and local services.

GEOLOGY

The Choco 5 property is within the Proterozoic granite-greenstone terrain of the Guyana shield. The shield covers eastern Colombia, southeastern Venezuela, Guyana, Suriname, French Guiana and northeastern Brazil. The terrain is a thick section of andesitic to dacitic volcanics intruded by numerous granite stocks and batholiths. Several periods of deformation, metamorphism, and mineralization can be documented within this terrain.

The Choco 5 property consist of basaltic to rhyolitic volcanic flows and tuffs, felsic sedimentary rocks related to volcanism, and intrusives of gabbroic composition. Apart from a number of surface outcrops, depth to unweathered rock is unknown due to lack of exploratory drilling. Units on the eastern side of the property display foliation in a NE-SW orientation, while on the western side a large scale folding yields orientations of NW-SE. A number of large faults provide offsets of unknown magnitude.

Gold mineralization, as seen exclusively from surficial soil and rock sample anomalies, follows foliation orientations on both eastern and western sides of the property. In most cases the presence of gold anomalies is accompanied by dark red alteration of weathered material, suggesting high sulfide content. There is also a clear association between mineralization and presence of quartz veining.

CHOCO 5 PROJECT WORK TO DATE

Since acquiring the property, the Company has invested approximately $1.5 million on the exploration of the Choco 5 property, which has included acquisition costs, geological mapping, airborne geophysics, stream sediment and soil geochemistry, mapping, geomorphological study, drilling and assaying.

2009 CHOCO 5 WORK PLAN

The Company has significantly reduced its exploration activities on Choco 5 until it receives clarification regarding new mining rules and regulations. Choco 5 exploration activities planned for 2009 are expected to be limited to baseline geological activities such as geochemical analysis and line cutting. The Company manages its exploration effort out of its office in the community of El Callao.

VENEZUELAN MINING, ENVIRONMENT AND OTHER MATTERS

Venezuelan laws applicable to mining operations consist of some laws that differ from those of Canada and the United States, as well as various mining and environmental rules and regulations that are similar in purpose to those in Canada and the United States, but often are more bureaucratically complex. The following is a summary of the more significant Venezuelan mining and environmental laws and other laws and regulations that may affect the Company s operations on the Brisas and Choco 5 properties, but is not a comprehensive review of all laws or a complete analysis of all potential regulatory considerations related to the properties.

Formation of the Ministry of Basic Industries and Mines (MIBAM)

In January 2005, Presidential Decree 3416 (dated January 11, 2005) reorganized the previous Ministry of Energy and Mines (MEM) and transferred certain activities, including mining, to the newly created MIBAM. The Decree also assigned to MIBAM the oversight and authority over the state-owned CVG, holder of the iron ore, bauxite and aluminum, gold, metallurgical and other mining and industrial state-owned assets.

Government Review of Contracts and Concessions for Compliance

In early 2005, MIBAM announced that the Venezuelan government would review all foreign investments in non-oil basic industries, including gold projects. MIBAM indicated that it was seeking transfers of new technology, technical training and assistance, job growth, greater national content, and creation of local downstream industries requiring a fundamental change in economic relations with major multinational companies.

In September 2005, Venezuelan President Hugo Chavez announced the government s intentions to revoke idle gold and diamond concessions and/or contracts and also create a new state mining company as part of an effort to increase government control over the sector. President Chavez did not specify which concessions and/or contracts would be revoked, but later MIBAM noted that inactive and out of compliance mines would be handed over to small mining cooperatives supported by the government through a new government mining corporation. The date for the completion of the review and the announcement of the results of this review has been deferred several times and it is unclear when such review and related announcement will take place.

In the third quarter of 2008, we received accreditation letters of technical compliance from the MIBAM for all properties that comprise Brisas. We believe, based on our performance and communications with the relevant regulatory agencies, all of our properties are in compliance with applicable regulations, including our required and voluntary commitments to various social, cultural and environmental programs in the immediate and surrounding areas near Brisas.

1999 Mining Law

The current Venezuelan Mining Law was approved and subsequently published in the Official Gazette by President Chavez s administration on September 28, 1999 (the "Mining Law"). It established five basic ways to structure mining activities with the primary one being concessions for exploration and subsequent exploitation.

Scope and Term of Concessions

The Mining Law sets out the basic requirements for a concession application to MIBAM, including:

- identification of the mineral(s) to be explored for and exploited;
- evidence of technical, economic and financial capability; and
- special advantages to be granted to the Republic of Venezuela in different areas (e.g., technology, infrastructure, social facilities, training obligations, etc.).

Before initiating exploitation, the concession holder must provide to the MinAmb an environmental bond to guarantee the rehabilitation of the environment at the completion of exploitation.

A concession holder has the right to exploit the granted minerals regardless of whether they occur in the hardrock or alluvial and the concession extends only to minerals specifically covered by the concession. A concession holder that finds a deposit of another mineral must inform MIBAM and make separate application for such mineral, in compliance with the Mining Law.

The term of a concession is 20 years (from the date the certificate of exploitation is granted) with two subsequent 10-year renewals, provided the concession holder has received such renewal within three months before the expiration of the term of the concession. Pursuant to Article 25

of the Mining Law, the concession holder may only request an extension if in compliance with all of its obligations to the Republic within the above three-year term application which, in any case, shall be submitted before the six (6) months prior to expiration of the initial term and the Ministry must decide within this same six (6) months period. If no notice is given by the Ministry, it will be understood that the extension has been granted.

Concession exploration periods are three years with a possible extension for one year. The concession holder must obtain an exploitation certificate by application to MIBAM. A feasibility study covering the technical, financial and environmental aspects of the project must accompany the application. The concession holder has seven years from the date of the exploitation certificate to commence exploitation.

Concession holders are subject to several royalties or taxes. A nominal surface tax is to be paid quarterly commencing on the fourth anniversary of the grant of the concession. In addition, minimum royalties or exploitation taxes are assessed as follows:

- gold, silver, platinum and associated metals, 3% of their commercial value as determined in the city of Caracas;
- diamonds and other precious stones, 4% of their commercial value as determined in the city of Caracas; and
- in other cases, including copper, 3% of their commercial value at the mine mouth. MIBAM can reduce this tax from 3% to 1% (and subsequently increase it back to 3%) if economic conditions warrant it.

Also, the Venezuelan government is entitled to exempt, either totally or partially, concession holders from import duties on imported tools and equipment not produced in the country and needed to develop mining activities.

In addition to the rights and obligations described above, current Venezuelan mining and environmental regulations require the rational exploitation of all known mineralization and prohibit the wasting of ore, development of permanent structures over mineralization and development efforts that hinder or negatively impact the rights of neighbors. These regulations provide, among other things, an environment in which neighboring title-holders can negotiate set-back agreements or similar agreements in order to allow the mineralization contained within an adjoining area to be rationally exploited by all parties The Company s Brisas Project mine plan, approved by MIBAM, and its approved ESIA both include the assumption that a set-back agreement related to Brisas northern boundary will be obtained, and, although the Company has not yet obtained a definitive set-back agreement or something similar with the adjacent property title-holder to the north, management has not received any communication that such agreement (either formal or informal) will not be obtained in the future.

Conversion of CVG Work Contracts into Mining Concessions

The Transitory Provisions included in Title XI of the Mining Law contemplate the option to apply for a conversion of CVG work contracts into mining concessions. In September 2003, a Presidential Decree was enacted that eliminated the authority of CVG to grant new mining contracts for the exploration, development and exploitation of gold and diamonds in the Guayana region. The decree is a continuation of the policy of MIBAM to centralize the management of mining rights in the Guayana region.

The Company has obtained several properties located near the Brisas property pursuant to CVG work contracts for infrastructure purposes and, based on the current mining law, applied to MIBAM in a timely manner for conversion thereof into mining concessions. MIBAM previously indicated that it would act on these conversion applications; however, recent announcements by the government that it had formed a state-owned mining company, future mining rights would be issued via mining licenses, and that no new concessions would be issued, will likely impact the conversion process provided for in the current law. As an alternative to the conversion process, the Company will likely maintain the current work contracts and/or pursue some form of land use permit to use these properties for infrastructure needs and not for mineral exploitation. In the third quarter of 2008, we received an accreditation letter of technical compliance from the MIBAM for the CVG work contracts.

Environmental Laws and Regulations

Venezuela's environmental laws and regulations are administered through the MinAmb. The MinAmb proscribes certain mining recovery methods deemed harmful to the environment and monitors activities to ensure compliance. As part of the pre-requisites to obtain a mining concession from MIBAM, applicants submit an environmental questionnaire to MIBAM, which they in turn submit to the MinAmb for the allocation of the Permit to Occupy the Territory. The exploration process requires the applicant to submit a preliminary ESIA. Furthermore, the production permitting process is initiated by filing the proposed terms of reference which, when approved, serves as the basis for a complete ESIA. The format for the ESIA is stipulated in a 1996 law (Decree 1257). The Brisas ESIA has been approved and the Permit to Affect Natural Resources for the Construction of Infrastructure and Services Phase of the Brisas Project was issued to the Company on March 27, 2007. As described above, in May 2008 we received notification from MinAmb of its decision to revoke the Authorization to Affect. See Item 4.

Other Taxes

Venezuelan tax law provides for a maximum corporate income tax rate on mining companies of 34%. This rate applies to net income over approximately $52,510 depending on exchange rates. Other Venezuelan taxes that apply or may eventually apply to the Company s subsidiaries include a 12% value added tax on goods and services, and a 5% to 20% import duty on mining equipment. Upon application, Venezuela offers certain exemptions or exonerations from value added tax and import duties to mining companies. Management expects to apply for such exemptions or exonerations, where available.

Gold Sales

The Central Bank of Venezuela (BCV) allows gold mining companies to sell up to 85% of their production on the international market. The remaining 15% may be required by the government to be sold domestically at the current market price, which is paid in Venezuelan currency. Gold sold domestically to BCV is assessed a maximum tax of 1% of the value of gold as compared to the amount stated in the Mining Law.

Currency and Exchange Controls

In 2003, the Central Bank of Venezuela implemented foreign exchange controls which fixed the rate of exchange between Venezuelan Bolivars (Bs.) and the U.S. dollar. In March of 2005, the rate was fixed at 2,150 Bs. to US $1.00. On January 1, 2008 the Venezuelan government modified the currency, fixing the official exchange rate at 2.15 Bs. to US $1.00.

In 2005, the Venezuelan government enacted the Criminal Exchange Law which imposes criminal and economic sanctions on the exchange of Bolivars with foreign currency unless the exchange is made by officially designated methods. Such currency exchange approvals have often been limited or delayed and, as a result, can negatively affect the ability of companies doing business in Venezuela to convert Venezuelan source income into foreign currency. The exchange regulations do not apply to transactions with certain securities denominated in Bolivars which can be swapped for securities denominated in another currency effectively resulting in a parallel market for the Bolivar.

Investment Protection Treaties with Canada and Barbados

Venezuela has entered into investment protection treaties (bilateral investment agreements) with Canada and Barbados. These agreements provide investors such as the Company or its indirect subsidiary Gold Reserve de Barbados Limited both indirect investors in the Brisas Project greater protection in Venezuela than certain other foreign investors. These treaties provide for protection for investments, property and credit rights, including ownership of real estate, concessions, moveable assets and security interests thereof, including other items. Investors are protected against expropriation, nationalization, unfair and inequitable treatment, full protection and security, arbitrary and discriminatory measures, most-favored-nation status or similar governmental action, unless such actions stems from legal procedures based on public benefit, affected without discrimination and with a prompt, effective and adequate compensation. Any dispute arising under either of these bilateral investment agreements will be settled through diplomatic efforts or international arbitration. The provisions of these treaties prevail over the provisions of other Venezuelan laws and regulations.

Labor

Venezuela has extensive labor laws and regulations including obligations to favor Venezuelan nationals for employment whenever possible. It is anticipated that, in the initial stages of the Company s mining projects, approximately 95% of our workforce will be Venezuelan. In order to maintain or exceed this level, the Company will implement an extensive training program over the life of the projects. Management plans to draw on Venezuela s large industrial base to staff many of its positions, but the experience base for large-scale mining and milling operations in Venezuela is limited. The Company will draw on the regional area including the Puerto Ordaz, Las Claritas and Km 88 areas to fill a significant portion of the required management, engineering and administration staff positions.

Interest of experts

The following individuals are the qualified persons responsible for the preparation of the March 2008 NI 43-101, from which certain technical information contained in this Annual Report has been derived:

Barton G. Stone, C.P.G -Pincock, Allen & Holt, Inc.;
Richard Addison, P.E.-Pincock, Allen & Holt, Inc.;
Susan Poos, P.E. - Marston & Marston, Inc

To the Company s knowledge, none of the persons referred to above and none of the corporations by which they are employed have received or will receive any direct or indirect interests in any securities or other property of the Company or of an associate or affiliate of Company or have any beneficial ownership, direct or indirect, of the Company s securities or of the securities of an associated party or an affiliate of the Company.

The Company s auditors, PricewaterhouseCoopers, LLP, are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of December 31, 2008.

Item 4A. Unresolved Staff Comments Not Applicable

Item 5. Operating and Financial Review and Prospects

OVERVIEW

The following discussion of the Company's financial position as of December 31, 2008 and results of operations for the year ended December 31, 2008 is to be read in conjunction with the Company's consolidated financial statements and related notes. We prepare our consolidated financial statements in U.S. dollars in accordance with accounting principles generally accepted in Canada. These financial statements together with the following management's discussion and analysis, dated March 30, 2009, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as certain forward-looking statements relating to the Company's potential. Additional information on the Company can be found at www.sedar.com, www.sec.gov or the Company s web-site www.goldreserveinc.com. The Company has one operating segment, which is the exploration and development of mineral properties. Segmented financial information by geographic region is shown in Note 12 to the consolidated financial statements.

The Company is engaged in the business of exploration and development of mining projects and continues to focus the majority of its management and financial resources on its most significant asset, the Brisas gold and copper project ("Brisas Project", "Brisas" or the "Brisas Property"), and to a lesser extent the exploration of its Choco 5 property, both located in Bolivar State, Venezuela. Historically we have financed the Company s operations through the sale of common stock, other equity securities and convertible debt. Management expects Brisas, if constructed, to be similarly financed along with project and corporate debt financing.

Venezuela continues to experience high levels of inflation, political and civil unrest, government involvement in strategic industries and during the last several years has proposed changes in regulatory regimens. As discussed in greater depth under "Item 3. Key Information - Risk Factors," our operations and investments in Venezuela have been adversely impacted and could continue to be adversely affected in the future by Venezuelan regulatory changes and/or domestic and international government policies.

We are dependent on Venezuelan regulatory authorities issuing to us various permits and authorizations relating to Brisas that we require prior to completing construction of and subsequently operating Brisas. A new mining law has been discussed by the current Venezuelan administration for a number of months and, as a result, the rules and regulations related to the Venezuelan mining sector are in transition. Although various alternative changes have been addressed publicly in the past 12 months, the specific provisions of any new law is still unclear and the government has not yet announced when any new mining law will be approved and enacted.

The Venezuelan Ministry of Mines (MIBAM) approved the operating plan for Brisas during 2003 which was a prerequisite for submitting the Brisas Environmental and Social Impact Study for the Exploitation and Processing of Gold and Copper Ore (Estudio de Impacto Ambiental y Sociocultural) (ESIA)to the Venezuelan Ministry of Environment (MinAmb). MinAmb approved the ESIA in early 2007 and in March 2007 issued the Authorization for the Affectation of Natural Resources for the Construction of Infrastructure and Services Phase of the Brisas Project (the Authorization to Affect).

Based on the issuance of the Authorization to Affect in 2007, we commenced significant pre-construction procurement efforts with the assistance of SNC-Lavalin awarding contracts for Brisas site prep and construction camp facilities and placing orders for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors and other related processing equipment, early-works construction equipment and various other site equipment totaling approximately $125.3 million, accelerated detailed project engineering, hired a number of senior technical staff, completed the sale of approximately $103.5 million of convertible notes and $74 million in new equity, launched a number of environmental and social initiatives and commenced preparation of the Brisas site for construction activities.

In May 2008, the Company received notification from the MinAmb of its decision to revoke the Authorization to Affect. MinAmb referenced in its formal notice the existence of environmental degradation and affectation on the Brisas property, the presence of a large number

of miners on the property and the Imataca Forest Reserve as the basis for their decision. Venezuelan legal counsel has advised management that the Authorization to Affect was granted to our Venezuelan subsidiary by MinAmb, a competent authority, following the corresponding legal procedure and in accordance with applicable laws and regulations. At the time the Authorization to Affect was issued, there was no legal norm prohibiting MinAmb from authorizing performance of mining activities in the area of the Brisas Project. Further, in response to the various points contained within the revocation notice, Venezuelan legal counsel has advised management that the revocation of the Authorization to Affect is groundless and legally unsupported.

Shortly after the revocation the Company filed an appeal with the Minister of MinAmb outlining the factual flaws referenced in the revocation and requested the Minister to reinstate the Company s Authorization to Affect. MinAmb has not yet issued an official decision regarding our appeal and on advice of counsel and in order to protect our rights under Venezuelan law, the Company filed an appeal with the Political Administrative Chamber of the Venezuelan Supreme Court on March 25, 2009. Although the filing in the Supreme Court is more formal that the appeal filed with MinAmb, the substance of our arguments and the merits of our position remain substantially the same.

Since we received the revocation notice, management has communicated with members of MinAmb, MIBAM and other government officials with the intention of obtaining a resolution to the impasse. A number of alternatives have been discussed with government officials. Although these discussions appear to be consistent with the proposed changes to the mining law that have been addressed publically in the past 12 months, the final provisions that might be enacted are still unclear.

We believe that (1) through the new Mining Law or another legal instrument the Venezuelan government may seek to participate in all mining projects through a state company or joint venture, (2) if the government participates in the mining projects, it may pay its pro rata share of investments to date and its share of future capital costs relating to the projects, and (3) the government believes that the Brisas Project and the Las Cristinas project, which is contiguous and to the north, should be combined into a single project in which the benefits to all participants, including the local communities and the government, will be maximized. Until the government clearly and unequivocally announces (1) the provisions of the new mining law and policies and, (2) its intentions regarding the Brisas stand alone project or the Brisas/Las Cristinas combined project, we can give no assurance as to what the outcome will be.

We believe there are three courses of action available to us in Venezuela at this time:

- resolve with the Venezuelan government the current status of the Brisas Project and proceed with our development with the support of the government;
- seek a financial settlement with the Venezuelan government if development is not permitted to proceed on terms acceptable to us; or
- seek remedies either under Venezuela s domestic legal system or via bilateral investment treaties that we believe protect investments such as ours in Venezuela.

It is possible that the government and the new mining law, when approved, will permit the Company to continue construction of and to operate the Brisas Project on a stand-alone basis without the participation of the government or government-sponsored third parties. We are prepared to proceed on that basis.

If the government seeks to enter into mixed enterprise joint ventures with mining companies operating in Venezuela, we believe it will be possible that the Company and the Venezuelan government could reach an agreement or arrangement on acceptable terms with respect to an enterprise through which the Company and Venezuela jointly construct and operate the Brisas Project or a combined Las Cristinas and Brisas Project.

If an acceptable agreement or arrangement is not offered by the government to the Company, we would seek to negotiate with the Venezuelan government an acceptable amount of compensation for our investment and rights in the Brisas Project.

If we and the Venezuelan government were unable to reach an agreement as to a mutually acceptable amount of compensation, we would pursue claims under Venezuela s domestic legal system or through arbitration under bilateral investment treaties entered into between Venezuela, Canada and Barbados, for compensation that will reflect our approximately $250 million investment plus interest over our 17 year investment period, as well as a claim for lost profits reflecting the economic conditions prevalent at the time of the revocation of the permit.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008 our total financial resources, which include cash and cash equivalents, restricted cash and marketable securities, were approximately $110.4 million. Financial resources decreased approximately $41.3 million from December 31, 2007. This decrease was primarily due to the purchase of $27.4 million of equipment, $17.0 million capitalized development costs, $13.9 million cash used by operations and $2.2

million of other items, net of $19.2 million recovery of cash from sales of equipment. At December 31, 2008 the Company is evaluating the status of $44.7 million dollars of equipment (net of commitments) to sell, redeploy to an alternative project or wait for clarification regarding the Brisas Project.

In May 2007 we completed the sale of $103.5 million aggregate principal amount of 5.50% convertible notes due June 15, 2022 and 13,762,300 Class A common shares at $5.80 per share (Cdn$6.42 per share) for net proceeds to the Company of approximately $173 million after deducting underwriting fees and offering expenses. Although the convertible notes have a face value of $103.5 million, they are recorded on the balance sheet at approximately $91.8 million as Canadian accounting standards require the Company to allocate the proceeds from the notes between their equity and debt component parts based on their respective fair values at the time of issuance. The equity portion of the notes was estimated, using the residual value method, at approximately $29 million net of issuance costs. The fair value of the debt component is accreted to the face value of the notes using the effective interest method over the term of the notes, with the resulting charge recorded as interest expense which has been capitalized. At December 31, 2008, the Company revised its estimate of the expected life of the notes to June 15, 2012 and adjusted the carrying value accordingly. The adjusted carrying value was calculated by computing the present value of estimated future interest and principal payments at the original effective interest rate. As a result of this change, the carrying value of the notes increased by approximately $20.5 million with a corresponding increase in capitalized interest and accretion. The Company does not yet have a project debt facility or other borrowing arrangement in place at this time.

We have suspended the detailed engineering by SNC Lavalin and terminated further capital expenditures commitments with respect to Brisas, while we obtain clarification of the Venezuelan government s intentions, Management continues to identify opportunities to reduce the Company s financial risk going forward including the implementation of a cost reduction and containment program to slow down and reduce operational expenditures including the sale of certain equipment as discussed herein. Any decision in this regard will be influenced by the Company s intent to maintain a strong financial position while maintaining maximum flexibility. These efforts have been more recently hindered by the recent unsolicited takeover bid by Rusoro Mining Ltd which resulted in unplanned professional fees and other expenses of $5.4 million.

While we seek clarification regarding the status of the Brisas Project, we expect, as we have done in the past, to evaluate from time to time other opportunities outside of Venezuela. We have an experienced senior management team with considerable operations, financial and administrative experience and believe we are positioned to capitalize on the current economic environment. However, we do not expect that these other potential opportunities will soon disappear and have determined that the best course for the Company at this time is to first continue to work with the Venezuelan government to determine whether we can proceed with our work on the Brisas Project either on a stand-alone basis or with the participation of the Venezuelan government on terms acceptable to us. The timing of any such investment or transaction, if any, and the amounts required cannot be determined at this time.

Investing Activities

Based on the issuance of the Authorization to Affect in March 2007, we placed orders related to initial capital costs for Brisas totaling approximately $125.3 million. As a result of the subsequent revocation of the Authorization to Affect, the Venezuelan government s inability to clearly articulate its intentions related to Brisas and the uncertainty of the future time schedule, the Board of Directors authorized management to evaluate the sale or a redeployment to an alternative project of all or a portion of the equipment that is being manufactured for Brisas. In late 2008 the Company sold one SAG mill, two ball mills (35,000 tonne per day through-put) and related motors being manufactured for the Brisas Project for approximately $41.1 million. As a result of the sale the Company recovered approximately $19.2 million of progress payments and the purchaser assumed the Company's remaining payment obligations related to the equipment of approximately $21.9 million. The timing of or the value realized from any future sale or redeployment, if any, of the remaining equipment earmarked for Brisas cannot be determined at this time.

We believe that the sale of this equipment will not impact the start-up of the Brisas Project to the extent the current delays in Venezuela are resolved. The Company continues its commitment for the manufacture of one SAG mill and two ball mills, related motors and peripheral equipment, demonstrating our current commitment to the Brisas Project. Initially, the Brisas Project would be expected to proceed with reduced capital costs and 35,000 tonnes per day through-put as a result of this sale. This modification should not impact the Company s ability to increase production to 70,000 tonnes per day through-put or greater thereafter.

The estimated initial capital cost to construct and place Brisas into production, if permitted, totals approximately $731 million excluding working capital, critical spares and initial fills of approximately $53 million and ongoing life-of-mine requirements estimated at $269 million. Initial capital cost estimates exclude value added taxes of approximately $54 million which are subject to exoneration or payment holidays pursuant to current Venezuelan tax law. As a result, the cost of such taxes and import duties are not included in the initial costs of the project. There can be no assurances that such exonerations will be obtained, the result of which would be to increase initial capital and operating costs.

The Company retains its concession and contract rights, holds an operating plan approved by the MEM in 2003, holds an ESIA approved by MinAmb in early 2007, and has received from MIBAM accreditation letters of technical compliance for all of the properties that comprise Brisas in the third quarter of 2008. In this regard, the Company reviewed the amounts recorded on its Consolidated Balance Sheets related to the Brisas Project for potential impairment and has concluded that there was no impairment of these amounts as of December 31, 2008.

It is unclear how future actions by the government will effect our operations or impair the carrying value of the capitalized costs associated with Brisas. As noted elsewhere in this report, the Company is working with various government officials to resolve this matter and the ultimate resolution, if unfavorable, could result in a material impairment in the carrying value of the amounts recorded as property, plant and equipment, which totaled approximately $175 million at December 31, 2008.

Investing activities during the twelve months ended December 31, 2008 included the net investment in property, plant and equipment of approximately $44.6 million and net sales of marketable securities of approximately $1.2 million. Capitalized development costs incurred on Brisas, capitalized interest and equipment purchases represent the majority of the amount invested in property, plant and equipment.

Financing Activities

As of March 30, 2009 we held approximately $101 million in cash, restricted cash and investments. Of this amount, approximately $17.5 million is restricted cash as required by a letter of credit providing security on the Company s commitment to purchase certain equipment. The Company s cash and investments are held primarily is US dollar denominated accounts.

The Company s convertible notes are trading in the gray market often at a significant discount to face value. As the terms of the indenture provide that the Company may repurchase the convertible notes in open market purchases or negotiated transactions, the Board of Directors has authorized management to repurchase a portion of the outstanding convertible debt. As a result, we may from time to time seek to repurchase our outstanding convertible notes in open market purchases, privately negotiated transactions or otherwise. Such repurchases will depend on prevailing market conditions, our liquidity requirements and other factors. As of March 30, 2009, the Company had re-purchased approximately $1.1 million (face value) of convertible notes.

In the near-term, we believe that cash and investment balances are sufficient to enable us to fund our activities through 2010 (excluding any substantial Brisas construction activities). The timing and extent of additional funding or project financing, if any, depends on a number of important factors, including, but not limited to the resolution of the MinAmb revocation of the Authorization to Affect, the clear and unequivocal approval and support of the Venezuelan government, the actual timetable of our future work plans, status of the financial markets, the political, regulatory and economic conditions in Venezuela, our share price, the price of gold and copper and new opportunities that may arise in the future.

Operating Activities

Cash flow used by operating activities for 2008 was approximately $13.9 million, which was an increase over 2007 of approximately $8.2 million. Although management was successful at reducing certain operating expenses as planned, expenses related to the costs of defending the Company against the hostile take-over offer by Rusoro Mining Ltd. approximated $5.4 million. In addition to the unplanned expenditures related to the take-over defense, cash flow used by operations was further negatively impacted by reduced levels of interest income, primarily as a result of lower rates of return and lower levels of invested cash, as well diminished gains on sale of marketable securities.

RESULTS OF OPERATIONS

The Company is engaged in the business of exploration and development of mining projects, presently focusing our management and financial resources on the Brisas Project, located in Bolivar State, Venezuela. We have no commercial production at this time. We have not recorded revenue or cash flows from mining operations and have experienced losses from operations for each of the last five years, a trend we expect to continue until Brisas is fully constructed and put into commercial production or an alternative project is acquired. The Company s overall results of operations are a product of operating expenses, primarily related to the development of Brisas, net of income on invested cash.

Prior to 2007, the Company re-measured its Bolivar denominated transactions at the official exchange rate. In 2007, based on new guidance from the American Institute of Certified Public Accountant's ("AICPA") International Practices Task Force (IPTF), the Company concluded that the parallel market rate was the most appropriate rate to use to re-measure Bolivar denominated transactions. The IPTF continues to review this issue and may conclude that the parallel rate should be used. In the absence of definitive guidance, in 2008 the Company continued to use the parallel rate. If the company were to change the method of re-measuring Bolivar denominated transactions it may have an effect on the Company s future results of operations.

2008 Compared to 2007.

Consolidated net loss for the year ended December 31, 2008 was approximately $19.7 million or $0.35 per share, an increase of approximately $7.7 million from 2007. The increase in net loss was primarily due to a $4.1 million decrease in other income, a $3.5 million increase in operating expenses and an increase of $0.7 million in income tax expense.

Other income decreased from $6.5 million in 2007 to $2.4 million in 2008 primarily as a result of less interest income due to a lower return on invested cash and lower levels of cash compared to the previous year and a $0.2 million loss on sale of marketable securities in 2008 compared to a $1.3 million gain on sale of marketable securities reported in 2007.

Operating expenses in 2008 amounted to $21.4 million compared with $18.0 million in 2007. In the third quarter of 2008, the Company implemented a cost reduction program in response to the delays being experienced in Venezuela. As a result of this program, the Company reduced general and administrative expense by a total of $4.8 million, including reductions in compensation expense of approximately $3.0 million, fees associated with bank financing efforts of $1.0 million and other general and administrative expenses of approximately $0.8 million. These decreases in general and administrative expenses were offset by approximately $5.4 million of expenses attributable to defending against the unsolicited takeover offer from Rusoro Mining Ltd. In a further effort to conserve cash, in November 2008, the Company sold a portion of the equipment being manufactured for the Brisas project, recovering $19.2 million in deposits and reducing future commitments by $21.9 million while incurring a $1.3 million loss primarily from the effects of changes in currency rates. Additionally, the Company recorded a $0.06 million foreign currency loss in 2008 compared with a $0.9 million foreign currency gain in 2007 as a result of fluctuations in exchange rates between the US dollar and the Canadian and Venezuelan currencies.

	2008	2007 (restated)	Change
Other Income:			
Interest income	$ 2,687,825	$ 5,164,480	$ (2,476,655)
Gain (loss) on sale of marketable securities	(243,053)	1,334,604	(1,577,657)
	2,444,772	6,499,084	(4,054,312)
Expenses:			
General and administrative	7,377,312	12,143,569	(4,766,257)
Technical services	5,410,181	5,093,963	316,218
Takeover defense and litigation	5,407,230		5,407,230
Loss on sale of equipment	1,346,423		1,346,423
Corporate communications	941,002	904,157	36,845
Legal and accounting	899,195	774,140	125,055
Foreign currency (gain) loss	61,212	(926,299)	987,511
	21,442,555	17,989,530	3,453,025
Net loss before tax and minority interest	(18,997,783)	(11,490,446)	(7,507,337)
Minority interest	8,712	(462,474)	471,186
Net loss before tax	(18,989,071)	(11,952,920)	(7,036,151)
Income tax expense	(737,050)	(26,848)	(710,202)

Net loss for the year	$ (19,726,121)	$ (11,979,768)	$ (7,746,353)

2007 Compared to 2006.

The consolidated net loss for the year ended December 31, 2007 was approximately $11,980,000 or $0.24 per share, an increase of approximately $5,003,000 from the prior year. Other income for 2007 amounted to $6,499,000, a decrease of approximately $1,753,000 from the previous year. Other income decreased primarily as a result of a non-recurring gain on marketable securities during the year ended December 31, 2006, partially offset by higher interest income as a result of increased cash balances. Operating expenses for the year amounted to approximately $18,452,000, an increase from the prior year of approximately $3,745,000. The increase in operating expenses is primarily attributable to an increase in general and administrative costs of approximately $5,500,000, partially offset by a net change in foreign currency gain of approximately $2,068,000 over the prior year. The increase in general and administrative cost primarily relates to: a non-cash compensation expense of approximately $3,300,000 related to the grant of stock options; an increase in banking costs of approximately $1,000,000 related to the project debt financing and equipment procurement; with the remaining being attributable to salary adjustments, addition of technical staff, engagement of consultants and overall increases in costs related to corporate management activities associated with the development and construction of Brisas.

SUMMARY OF QUARTERLY RESULTS

					RESTATED			
Quarter ended	12/31/08	9/30/08	6/30/08	3/31/08	12/31/07	9/30/07	6/30/07	3/31/07
Other Income	$ 136,549	$ 288,673	$ 768,414	$1,251,136	$ (217,816)	$4,149,659	$1,894,117	$673,124
Net (loss) income before tax	(8,869,436)	(3,481,153)	(3,970,866)	(2,667,616)	(8,596,566)	767,375	(1,252,054)	(2,871,675)
Per share	(0.16)	(0.06)	(0.07)	(0.05)	(0.16)	0.01	(0.03)	(0.07)
Fully diluted	(0.16)	(0.06)	(0.07)	(0.05)	(0.16)	0.01	(0.03)	(0.07)
Net income (loss)	(8,905,698)	(3,788,711)	(4,172,935)	(2,858,777)	(8,735,162)	815,930	(1,112,571)	(2,947,965)
Per share	(0.16)	(0.07)	(0.07)	(0.05)	(0.16)	0.01	(0.02)	(0.07)
Fully diluted	(0.16)	(0.07)	(0.07)	(0.05)	(0.16)	0.01	(0.02)	(0.07)

The downward trend during 2008 related to other income is associated with lower interest rates and levels of invested cash which continued in the fourth quarter of 2008. In the quarter ended 09/30/07 other income increased as a result of non-recurring sales of investments. The increase in net loss for the quarter ended 12/31/08 is primarily attributable to unplanned expenses of nearly $6 million associated with the defense of the unsolicited offer by Rusoro Mining Ltd.

The increase in net loss for the quarter ended 12/31/07 is a result of through the third quarter of 2007, the Company re-measured its Bolivar denominated transactions at the official exchange rate of Bs. 2,150/$. In the fourth quarter of 2007, based on new guidance from the AICPA s International Practices Task Force, the Company concluded that the parallel market rate was the most appropriate rate to use to re-measure Bolivar transactions. Accordingly, the Company used the average rate in the parallel market to re-measure all 2007 Bolivar transactions and at December 31, 2007 used the parallel rate to translate Bolivar denominated monetary items which had the effect in the fourth quarter 2007 of reducing the gain previously reported as Other Income on the conversion of dollars to Bolivars. The net loss in the fourth quarter 2007 is primarily a product of the currency translation noted above as well as a non-cash charge related to stock option compensation and salary adjustments. Historically, losses are a result of the Company s efforts to complete the development of Brisas.

CONTRACTUAL OBLIGATIONS

The following table sets forth information on the Company s material contractual obligation payments for the periods indicated as of December 31, 2008:

	Payments due by Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Convertible Notes[1]	$ 123,247,260	$ 5,684,360	$ 11,368,720	$ 106,194,180	
Equipment Contracts[2]	30,448,208	26,204,536	4,243,672		
Total	$ 153,695,468	$ 31,888,896	$ 15,612,392	$ 106,194,180	

[1] In May 2007, the Company issued $103,500,000 aggregate principal amount of its 5.50% convertible notes. The notes pay interest semi-annually and are due on June 15, 2022. Subject to certain conditions, the notes may be converted into Class A common shares of the Company, redeemed or repurchased. During 2008, $148,000 face value of convertible notes were converted for cash or repurchased by the Company. The amounts shown above include the interest and principal payments due based on the estimate that the term of the notes will end on June 15, 2012. If the notes were to reach their contractual maturity date of June 15, 2022, additional interest payments would amount to $56.8 million over the additional ten year term of the notes.

[2] The Company originally placed orders totaling $125.3 million for the fabrication of processing equipment, mobile equipment and other mining equipment and related engineering. In November 2008, the Company sold a portion of this equipment recovering $19.2 million in deposits and reducing our future commitment by $21.9 million. As of December 31, 2008, the Company has equipment orders totaling $75.1 million and has made payments on these orders of $44.7 million.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company s financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

SHARES ISSUED

As of March 30, 2009, the Company had the following Class A common shares, equity units and share purchase options issued:

Class A common shares	57,670,555
Equity Units*	500,236
Total Issued	58,170,791
Class A common share purchase options	5,480,431
Fully diluted	63,651,222

* An equity unit consists of one Class B common share of Gold Reserve Inc. and one Class B common share of Gold Reserve Corporation. Equity units are convertible into Class A common shares of Gold Reserve Inc. on a one-to-one basis and confer no special voting rights.

CRITICAL ACCOUNTING ESTIMATES

Management s capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are based on, among other things, the Company s estimate of current mineral reserves and resources which are based on engineering and geological estimates, estimated gold and copper prices, estimated plant construction and operating costs and the procurement of all necessary regulatory permits or authorizations and approvals. These estimates could change in the future and this could affect the carrying value and the ultimate recoverability of the amounts recorded as property and mineral rights and capitalized exploration and development costs.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such expected future net cash flows are less than the carrying value an impairment loss is recognized and the asset is written down to fair value. Fair value is generally determined by discounting estimated cash flows, using quoted market prices where available or making estimates based on the best information available.

As part of this process management, in light of the permitting delays related to the Brisas Project, evaluated the future recovery of the capitalized costs associated with the development of Brisas. See "Consolidated Balance Sheets - Property, plant and equipment" and "Note 7 to the consolidated financial statements." Based on certain probability-weighted alternative outcomes, management considered, the sum of the expected future net cash flows to be generated from the use or disposition of Brisas (undiscounted and without interest charges) and compared that to its carrying value. Based on this analysis, management has concluded that there is no impairment of the amounts recorded on the Balance Sheet related to the Brisas Project as of December 31, 2008.

The fair value of the debt component of the Company s convertible notes is accreted to the face value of the notes using the effective interest rate method over the expected life of the notes, with the resulting charge recorded as interest expense. The expected life of the notes is an estimate and is subject to change, if warranted by facts and circumstances related to the potential early redemption of the notes by either the Company or the holders. At December 31, 2008, the Company revised its estimate of the expected life of the notes to June 15, 2012 and adjusted the carrying value accordingly. See "Consolidated Balance Sheets - Convertible Notes" and "Note 16 to the consolidated financial statements." The adjusted carrying value was calculated by computing the present value of estimated future interest and principal payments at the original effective interest rate. As a result of this change, the carrying value of the notes increased by approximately $20.5 million with a corresponding increase in capitalized interest and accretion.

The Company uses the liability method of accounting for income taxes. Future tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and those amounts reported in the financial statements. The future tax assets or liabilities are calculated using the substantively enacted tax rates expected to apply in the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The Company operates and files tax returns in a number of jurisdictions. The preparation of such tax filings requires considerable judgment and the use of assumptions. Accordingly, the amounts reported could vary in the future. See "Consolidated Statements of Operations - Income tax expense" and "Note 11 to the consolidated financial statements."

The Company uses the fair value method of accounting for stock options. The fair value is computed using the Black-Scholes method which utilizes estimates that affect the amounts ultimately recorded as stock based compensation. See "Note 9 to the consolidated financial statements."

Through 2006, the Company re-measured its Bolivar denominated transactions at the official exchange rate. In 2007, based on new guidance from the AICPA s International Practices Task Force (IPTF), the Company concluded that parallel market rate was the most appropriate rate to use to re-measure Bolivar transactions. Accordingly, in 2007 the Company began to use the average rate received in the parallel market to re-measure Bolivar transactions and at December 31, 2007, used the parallel rate to translate Bolivar denominated monetary items. In June 2008, due to an amendment to the Criminal Exchange Law, the IPTF reconsidered the issue of which exchange rate was the most appropriate to use. After consideration of the IPTF review and in the absence of definitive guidance, the Company continues to believe that it is most appropriate use the parallel rate to re-measure transactions and to translate Bs. denominated monetary items.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2006, the Canadian Accounting Standards Boards (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. In July 2008, AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. We are currently formulating a project plan for the transition to IFRS and are assessing the impact of IFRS, specifically with respect to the effect on our accounting policies, IT systems, and internal control over financial reporting.

RELATED PARTY TRANSACTIONS

The Directors, officers and principal shareholders of the Company and their associates, affiliates and close family members have had no material interest, direct or indirect, in any transaction in which the Company has participated during the last three fiscal years other than as noted below. No Director or Named Executive Officer of had any indebtedness to the Company during the last fiscal year.

The Chief Executive Officer, President, Vice President-Finance and Vice President-Administration of the Company are also officers and/or directors and shareholders of MGC Ventures. The Company owned 12,062,953 common shares of MGC Ventures at December 31, 2008 and 2007, which represented 44.4%, respectively of its outstanding shares. MGC Ventures owned 258,083 common shares of the Company at December 31, 2008 and 2007. In addition, MGC Ventures owned 280,000 common shares of Great Basin at December 31, 2008 and 2007. During the last three years, the Company sublet a portion of its office space to MGC Ventures for $6,000 per year.

The Chief Executive Officer, President, Vice President-Finance and Vice President-Administration of the Company are also officers and/or directors and shareholders of Great Basin. The Company owned 15,661,595 common shares of Great Basin at December 31, 2008 and 2007, which represented 44.6%, respectively of its outstanding shares. Great Basin owned 491,192 common shares of the Company at December 31, 2008 and 2007. Great Basin also owned 170,800 common shares of MGC Ventures at December 31, 2008 and 2007. During the last three years, the Company sublet a portion of its office space to Great Basin for $6,000 per year.

Item 6. Directors, Senior Management and Employees

DIRECTORS AND OFFICERS

The following sets forth certain information regarding the Company s Board of Directors and the individual who served as the Chief Executive Officer of the Company during 2008 and four other individuals who served as the most highly compensated executive officers of the Company during 2008 (collectively, the "Named Executive Officers"). The time periods referred to below reflect the cumulative period of time the individual has been a Director or officer of the Company or Gold Reserve Corporation, the predecessor issuer. Directors serve until the next annual meeting.

Name, Residence and Position	Age	Principal Occupation during the last five years	Director and/or Officer Since
(1) Rockne J. Timm Washington, USA Chief Executive Officer and Director	63	Chief Executive Officer of the Company. Mr. Timm is also a Director and President of both Great Basin and MGC Ventures.	March 1984

Name, Residence and Position	Age	Principal Occupation during the last five years	Director and/or Officer Since
(1) A. Douglas Belanger Washington, USA President and Director	55	President of the Company. Mr. Belanger is also a Director and Executive Vice President of both Great Basin and MGC Ventures.	August 1988
James P. Geyer Washington, USA Senior Vice-President and Director	56	Senior Vice President of the Company. Mr. Geyer is also a director of Thompson Creek Metals Company Inc.	June 1997

Robert A. McGuinness Washington, USA Vice President-Finance and Chief Financial Officer	53	Vice President- Finance and Chief Financial Officer of the Company. Mr. McGuinness is also Vice President-Finance of both Great Basin and MGC Ventures.	March 1993
Douglas E. Stewart Colorado, USA Vice President- Project Development	57	Vice President- Project Development of the Company.	April 1997
James H. Coleman (1) (4) Alberta, Canada Non-Executive Chairman and Independent Director	58	Senior Partner of the law firm of Macleod Dixon LLP of Calgary, Alberta. He is also a Director of various public companies including Great Basin and MGC Ventures.	February 1994
Patrick D. McChesney (3) (4) Washington, USA Independent Director	59	Chief Financial Officer of Foothills Auto Group. He is also a Director of Great Basin and MGC Ventures.	August 1988
Chris D. Mikkelsen (2) (3) (4) Washington, USA Independent Director	57	Principal in McDirmid, Mikkelsen & Secrest, P.S. (a certified public accounting firm). Mr. Mikkelsen is also a Director of Great Basin and MGC Ventures.	June 1997
J.C. Potvin (2) (3) (4) Ontario, Canada Independent Director	55	Director and Chairman of Tiomin Resources Inc.	November 1993

There are no family relationships or arrangements or understandings pursuant to which any person was appointed as a Director or member of senior management.

(1) Member of the Executive Committee.

(2) Member of the Compensation Committee.

(3) Member of the Audit Committee.

(4) Member of the Nominating Committee.

Committee was formed by the Board of Directors in March 2009 and has not yet formally met.

COMPENSATION OF DIRECTORS AND OFFICERS

Executive Compensation

The following table sets forth the compensation paid or granted by the Company to the Named Executive Officers who served during the year ended December 31, 2008.

U.S. dollars Name and Principal Position	Year	Salary $	Bonus $	(3) Securities Under Options/ SARs Granted (#)		(4) All Other Compensation ($)
Rockne J. Timm	2008	300,000	112,075(1)	245,000		30,500
Chief Executive Officer	2007	250,000	395,308 (2)	300,000		44,995
	2006	250,000	100,700	250,000		

We have direct or indirect control of certain partnerships and limited liability companies and intend to continue to operate them in a manner consistent with the requirements for our qualification as a REIT. We are a limited partner or non-managing member in certain partnerships and limited liability companies. If any such partnership or limited liability company were to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an

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action which could cause us to fail a REIT income or asset test, and that we would not become aware of such action in a time frame which would allow us to dispose of our interest in the applicable entity or take other corrective action on a timely basis. In that case, unless we were entitled to relief, as described below, we would fail to qualify as a REIT.

Ownership of Interests in Qualified REIT Subsidiaries

We may, from time to time, own interests in subsidiary corporations. We own and operate a number of properties through our wholly-owned subsidiaries that we believe will be treated as "qualified REIT subsidiaries" under the Internal Revenue Code. A corporation will qualify as our qualified REIT subsidiary if we own 100% of its outstanding stock and if we do not elect with the subsidiary to treat it as a "taxable REIT subsidiary," as described below. A corporation that is a qualified REIT subsidiary is not treated as a separate corporation for United States federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as assets, liabilities and items of income, deduction and credit (as the case may be) of the parent REIT for all purposes under the Internal Revenue Code

(including all REIT qualification tests). Thus, in applying the United States federal tax requirements described in this prospectus, the subsidiaries in which we own a 100% interest (other than any taxable REIT subsidiaries) are ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiaries are treated as our assets, liabilities and items of income, deduction and credit. A qualified REIT subsidiary is not required to pay United States federal income tax, and our ownership of the stock of a qualified REIT subsidiary does not violate the restrictions on ownership of securities of any one issuer which constitute more than 10% of the voting power or value of such issuer's securities or more than 5% of the value of our total assets, as described below in " Asset Tests."

Ownership of Interests in Subsidiary REITs

We own interests in other corporations that have elected to be taxed as a REIT. Provided that each of these REITs qualifies as a REIT, our interest in each of these REITs will be treated as a qualifying real estate asset for purposes of the REIT asset tests and any dividend income or gains derived by us will generally be treated as income that qualifies for purposes of the REIT gross income tests. To qualify as a REIT, each of these REITs must independently satisfy the various REIT qualification requirements described

in this summary. If any of these REITs were to fail to qualify as a REIT, and certain relief provisions do not apply, it would be treated as a regular taxable corporation and its income would be subject to United States federal income tax. In addition, a failure of any of these REITs to qualify as a REIT would have an adverse effect on our ability to comply with the REIT income and asset tests, and thus our ability to qualify as a REIT.

Ownership of Interests in Taxable REIT Subsidiaries

A taxable REIT subsidiary of ours is an entity treated as a corporation (other than a REIT) in which we directly or indirectly hold stock, and that has made a joint election with us to be treated as a taxable REIT subsidiary. A taxable REIT subsidiary also includes any entity treated as a corporation (other than a REIT) with respect to which a taxable REIT subsidiary owns securities possessing more than 35% of the total voting power or value of the outstanding securities of such corporation. A taxable REIT subsidiary generally may engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT, except that a taxable REIT subsidiary may not directly or indirectly operate or manage a lodging or healthcare facility or directly or indirectly provide to any other

person (under a franchise, license or otherwise) rights to any brand name under which any lodging or healthcare facility is operated. A taxable REIT subsidiary is subject to United States federal income tax, and state and local income tax where applicable, as a regular C corporation. In addition, a taxable REIT subsidiary may be prevented from deducting interest on debt funded directly or indirectly

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by its parent REIT if certain tests regarding the taxable REIT subsidiary's debt to equity ratio and interest expense are not satisfied. We currently own interests in several taxable REIT subsidiaries, and may acquire interests in additional taxable REIT subsidiaries in the future. Our ownership of securities of our taxable REIT subsidiaries will not be subject to the 5% or 10% asset tests described below. See " Asset Tests."

Income Tests

We must satisfy two gross income requirements annually to maintain our qualification as a REIT:

First, in each taxable year, we must derive directly or indirectly at least 75% of our gross income, excluding gross income from prohibited transactions, certain hedging transactions entered into

after July 30, 2008, and certain foreign currency gains recognized after July 30, 2008, from (a) certain investments relating to real property or mortgages on real property, including "rents from real property" and, in certain circumstances, interest, or (b) some types of temporary investments; and

Second, in each taxable year, we must derive at least 95% of our gross income, excluding gross income from

prohibited transactions, certain hedging transactions entered into on or after January 1, 2005, and certain foreign currency gains recognized after July 30, 2008, from the real property investments described above, dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing.

For these purposes, the term "interest" generally does not include any amount received or accrued, directly or indirectly, if the determination of all or some of the amount depends in any way on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the

term "interest" solely by reason of being based on a fixed percentage or percentages of receipts or sales.

Rents we receive from a tenant will qualify as "rents from real property" for the purpose of satisfying the gross income requirements for a REIT described above only if all of the following conditions are met:

The amount of rent is not based in any way on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term "rents from real property" solely because it is based on a fixed percentage or

percentages of receipts or sales;

We do not, or an actual or constructive owner of 10% or more of our capital stock does not, actually or constructively own 10% or more of the interests in the assets or net profits of the tenant, or, if the tenant is a corporation, 10% or more of the voting power or value of all classes of stock

of the tenant. Rents we receive from such a tenant that is our taxable REIT subsidiary, however, will not be excluded from the definition of "rents from real property" as a result of this condition if at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are substantially

comparable to rents paid by our other tenants for comparable space. Whether rents paid by our taxable REIT subsidiary are substantially comparable to rents paid by our other tenants is determined at the time the lease with the taxable REIT subsidiary is entered into, extended, and modified, if such modification increases the rents due under such lease. Notwithstanding the foregoing, however, if a lease

with a "controlled taxable REIT subsidiary" is modified and such modification results in an increase in the rents payable by such taxable REIT subsidiary, any such increase will not qualify as "rents from real property." For purposes of this rule, a "controlled taxable REIT subsidiary" is a taxable REIT subsidiary in which we own stock possessing more than 50% of the voting power or more

than 50% of the total value of the outstanding stock. In addition, rents we receive from a tenant that also is our taxable REIT subsidiary will not be excluded from the

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definition of "rents from real property" as a result of our ownership interest in the taxable REIT subsidiary if the property to which the rents relate is a qualified lodging facility, or on or after January 1, 2009, a qualified health care property, and such property is operated on behalf of the taxable REIT subsidiary by a person who is an independent contractor and certain other requirements are

met. Our taxable REIT subsidiaries will be subject to United States federal income tax on their income from the operation of these properties.

Rent attributable to personal property, leased in connection with a lease of real property, is not greater than 15% of the total rent we receive under the lease. If this condition is not met, then the portion of rent

attributable to the personal property will not qualify as "rents from real property;" and

We generally do not operate or manage the property or furnish or render services to our tenants, subject to a 1% de minimis exception and except as provided below. We may, however, perform services that are "usually or customarily rendered" in connection with the rental of space for

occupancy only and are not otherwise considered "rendered to the occupant" of the property. Examples of such services include the provision of light, heat, or other utilities, trash removal and general maintenance of common areas. In addition, we may employ an independent contractor from whom we derive no revenue to provide customary services, or a taxable REIT subsidiary, which may be wholly or partially

owned by us, to provide both customary and non-customary services to our tenants without causing the rent we receive from those tenants to fail to qualify as "rents from real property." Any amounts we receive from a taxable REIT subsidiary with respect to the taxable REIT subsidiary's provision of non-customary services will, however, be nonqualifying income under the 75% gross income test and, except

to the extent received through the payment of dividends, the 95% gross income test.

We generally do not intend to receive rent which fails to satisfy any of the above conditions. Notwithstanding the foregoing, we may have taken and may continue to take actions which fail to satisfy one or more of the above conditions to the extent that we determine, based on the advice of our tax counsel, that those actions will not jeopardize our tax status as a REIT. In addition, with respect to the limitation on the rental of personal property, we have not obtained appraisals of the real property and personal property leased to tenants. Accordingly, there can be no assurance that the Internal Revenue Service will agree with our determinations of value.

Income we receive that is attributable to the rental of parking spaces at our properties will constitute rents from real property for purposes of the REIT gross income tests if any services provided with respect to the parking facilities are performed by independent contractors from whom we derive no income, either directly or indirectly, or by a taxable REIT subsidiary, and certain other

requirements are met. With the exception of some parking facilities we operate, we believe that the income we receive that is attributable to parking facilities meets these tests and, accordingly, will constitute rents from real property for purposes of the REIT gross income tests.

From time to time, we enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts. Income from a hedging transaction, including gain from the sale or disposition of such a transaction, that is clearly identified as a hedging transaction as specified in the Internal Revenue Code will not constitute gross income and thus will be exempt from the 95% gross income test to the extent such a hedging transaction is entered into on or after January 1, 2005, and from the 75% gross income test to the extent such hedging transaction is entered into after July 30, 2008. Income and gain from a hedging transaction, including gain from the sale or disposition of such a transaction will be treated as nonqualifying income for purposes of the 75% gross income test if entered into on or prior to July 30, 2008 and will be treated as qualifying income for purposes of the 95% gross income test if entered into prior to

January 1, 2005. The term

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"hedging transaction," as used above, generally means any transaction we enter into in the normal course of our business primarily to manage risk of (1) interest rate changes or fluctuations with respect to borrowings made or to be made by us to acquire or carry real estate assets, or (2) for hedging transactions entered into after July 30, 2008, currency fluctuations with respect to an item of qualifying income under the 75% or 95% gross income test. To the extent that we do not properly identify such transactions as hedges, we hedge other risks or we hedge with other types of financial instruments, the income from those transactions is not likely to be treated as qualifying income for purposes of the gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT.

We have made an investment in a property located in Mexico. This investment could cause us to incur foreign currency gains or losses. Prior to July 30, 2008, the characterization of any such foreign currency gains for purposes of the REIT gross income tests was unclear, though the Internal Revenue Service had indicated that REITs may apply the principles of proposed Treasury Regulations to determine whether such foreign currency gain constitutes qualifying income under the REIT income tests. As a result, we anticipate

that any foreign currency gain we recognized relating to rents we receive from our property located in Mexico was qualifying income for purposes of the 75% and 95% gross income tests. Any foreign currency gains recognized after July 30, 2008, to the extent attributable to specific items of qualifying income or gain, or specific qualifying assets, however, generally will not constitute gross income for purposes of the 75% and 95% gross income tests, and therefore will be exempt from these tests.

Dividends we receive from our taxable REIT subsidiaries will qualify under the 95%, but not the 75%, REIT gross income test.

The Department of Treasury has the authority to determine whether any item of income or gain recognized after July 30, 2008, which does not otherwise qualify under the 75% or 95% gross income tests, may be excluded as gross income for purposes of such tests or may be considered income that qualifies under either such test.

We believe that the aggregate amount of our nonqualifying income, from all sources, in any taxable year will not exceed the limit on nonqualifying income under the gross income tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless

qualify as a REIT for the year if we are entitled to relief under certain provisions of the Internal Revenue Code. Commencing with our taxable year beginning January 1, 2005, we generally may make use of the relief provisions if:

following our identification of the failure to meet the 75% or 95% gross income tests for any taxable year, we file a schedule with the Internal Revenue Service setting forth each item of our gross income for purposes of the 75% or 95% gross income tests for such taxable year in

accordance with Treasury Regulations to be issued; and

our failure to meet these tests was due to reasonable cause and not due to willful neglect.

It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally accrue or receive exceeds the limits on nonqualifying income, the Internal Revenue Service could conclude that our failure to satisfy the tests was not due to reasonable cause. If these relief provisions do not apply to a particular set of circumstances, we will not qualify as a REIT. As discussed above in " Taxation of the Company General," even if these relief provisions apply, and we retain our status as a REIT, a tax would be imposed with respect to our nonqualifying income. We may not always be able to comply with the gross income tests for

REIT qualification despite our periodic monitoring of our income.

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Prohibited Transaction Income

Any gain that we realize on the sale of property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Our gain would include any gain realized by our qualified REIT subsidiaries and our share of any gain realized by any of the partnerships or limited liability companies in which we own an interest. This prohibited transaction income may also adversely affect our ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. We intend to hold our properties for investment with a view to long-term appreciation and to engage in the business of acquiring, developing and owning our properties. We have made, and may in the future make, occasional sales of the properties consistent with our investment objectives. We do not intend to enter into any sales that are prohibited transactions. The Internal Revenue Service may contend, however, that one or

more of these sales is subject to the 100% penalty tax.

Like-Kind Exchanges

We have in the past disposed of properties in transactions intended to qualify as like-kind exchanges under the Internal Revenue Code, and may continue this practice in the future. Such like-kind exchanges are intended to result in the deferral of gain for United States federal income tax purposes. The failure of any such transaction to qualify as a like-kind exchange could subject us to United States federal income tax, possibly including the 100% prohibited transaction tax, depending on the facts and circumstances surrounding the particular transaction.

Penalty Tax

Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of any services furnished by one of our taxable REIT subsidiaries to any of our tenants, and redetermined deductions and excess interest represent any amounts that are deducted by a taxable REIT subsidiary of ours for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's-length negotiations. Rents we receive will not

constitute redetermined rents if they qualify for certain safe harbor provisions contained in the Internal Revenue Code.

We believe that, in all instances in which our taxable REIT subsidiaries provide services to our tenants, the fees paid to such taxable REIT subsidiaries for such services are at arm's-length rates, although the fees paid may not satisfy the safe harbor provisions referenced above. These determinations are inherently factual, and the Internal Revenue Service has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the Internal Revenue Service successfully made such an assertion, we would be required to pay a 100% penalty tax on the excess of an arm's-length fee for tenant services over the amount actually paid.

Asset Tests

At the close of each calendar quarter of our taxable year, we also must satisfy four tests relating to the nature and diversification of our assets.

First, at least 75% of the value of our total assets, including assets held by our qualified REIT subsidiaries and our allocable share of the assets held by the partnerships and other entities treated as partnerships for United

States federal income tax purposes in which we own an interest, must be represented by real estate assets, cash, cash items and government securities. For purposes of this test, the term "real estate assets" generally means real property (including interests in real property and

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interests in mortgages on real property) and shares (or transferable certificates of beneficial interest) in other REITs, as well as any stock or debt instrument attributable to the investment of the proceeds of a stock offering or a public debt offering with a term of at least five years, but only for the one-year period beginning on the date we receive such proceeds.

Second, not more than 25% of the value of our total assets may be represented by securities other than those securities includable in the 75% asset test.

Third, of the investments included in the 25% asset class and except for certain investments in other REITs, our qualified REIT subsidiaries and our taxable REIT subsidiaries, the value of any one issuer's securities may not exceed 5% of the value of our total assets, and we may not own more than 10% of the total vote or value of the outstanding securities of any one issuer, except, in the case of the 10% value test, securities satisfying the "straight debt" safe-harbor or securities issued by a partnership that itself would satisfy the 75% income test if it were a REIT. Certain types of securities are disregarded as securities solely for purposes of the 10% value test, including, but not limited to, any loan to an individual or an estate, any obligation to pay

rents from real property and any security issued by a REIT. In addition, commencing with our taxable year beginning January 1, 2005, solely for purposes of the 10% value test, the determination of our interest in the assets of a partnership or limited liability company in which we own an interest will be based on our proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Internal Revenue Code. For years prior to 2001, the 10% limit applies only with respect to voting securities of any issuer and not to the value of the securities of any issuer.

Fourth, commencing with our taxable years beginning on or after January 1, 2009, not more than 25% (20% for taxable years beginning on or after January 1, 2001 and ending on or before December 31, 2008) of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries.

We currently own some or all of the outstanding stock of several subsidiaries that have elected, together with us, to be treated as taxable REIT subsidiaries. So long as these subsidiaries qualify as taxable REIT subsidiaries, we will not be subject to the 5% asset test, the 10% voting securities limitation or the 10% value limitation

with respect to our ownership of their securities. We may acquire securities in other taxable REIT subsidiaries in the future. We believe that the aggregate value of our taxable REIT subsidiaries did not exceed 20% of the aggregate value of our gross assets in any taxable year beginning on or after January 1, 2001 and ending on or before December 31, 2008, and we believe that since that time, the aggregate value of our taxable REIT subsidiaries has not exceeded and in the future will not exceed 25% of the aggregate value of our gross assets. With respect to each issuer in which we currently own an interest that does not qualify as a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our ownership of the securities of any such issuer has complied with the 5% value limitation, the 10% voting securities limitation and the 10% value limitation. No independent appraisals have been obtained to support these conclusions. In addition, there can be no assurance that the Internal Revenue Service will not disagree with our determinations of value. We also own, and may continue to make, certain loans that do not constitute real estate assets and which must qualify under the "straight debt safe harbor" in order to satisfy the 10% value limitation described above. We believe, based on the advice of our tax counsel, that all of these

loans have qualified under this safe harbor.

In addition, from time to time, we may acquire certain mezzanine loans secured by equity interests in pass-through entities that directly or indirectly own real property. Revenue Procedure 2003-65 (the "Revenue Procedure") provides a safe harbor pursuant to which mezzanine loans meeting the requirements of the safe harbor will be treated by the Internal Revenue Service as real estate assets for purposes of the REIT asset tests. In addition, any interest derived from such mezzanine loans will be treated as qualifying mortgage interest for purposes of the 75% gross income test (described above).

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Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. The mezzanine loans that we hold or acquire may not meet all of the requirements of the safe harbor. Accordingly, there can be no assurance that the IRS will not challenge the qualification of such assets as real estate assets or the interest generated by these loans as qualifying income under the 75% gross income test (described above).

The asset tests described above must be satisfied at the close of each calendar quarter of our taxable year. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values unless we (directly or through our partnerships or limited liability companies) acquire securities in the applicable issuer, increase our ownership of securities of such issuer (including as a result of increasing our interest in a partnership or limited liability company which owns such securities), or acquire other assets. For example, our indirect ownership of securities of an issuer may increase as a result of our capital contributions to a partnership or limited liability company. If we fail to satisfy an asset test because we acquire

securities or other property during a quarter (including as a result of an increase in our interests in a partnership or limited liability company), we can cure this failure by disposing of sufficient nonqualifying assets within 30 days after the close of that quarter. We believe that we have maintained and intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests. In addition, we intend to take such actions within 30 days after the close of any calendar quarter as may be required to cure any noncompliance.

Certain relief provisions may be available to us if we discover a failure to satisfy the asset tests described above after the 30 day cure period. Under these provisions, we will be deemed to have met the 5% and 10% REIT asset tests if the value of our nonqualifying assets (i) does not exceed the lesser of (a) 1% of the total value of our assets at the end of the applicable quarter or (b) $10,000,000, and (ii) we dispose of the nonqualifying assets or otherwise satisfy such asset tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the period of time prescribed by Treasury Regulations to be issued. For violations of any of the asset tests due to reasonable cause and not due to willful neglect and that are, in the case of the 5% and 10% asset tests,

in excess of the de minimis exception described above, we may avoid disqualification as a REIT after the 30 day cure period, by taking steps including (i) the disposition of sufficient nonqualifying assets, or the taking of other actions, which allow us to meet the asset tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the period of time prescribed by Treasury Regulations to be issued, (ii) paying a tax equal to the greater of (a) $50,000 or (b) the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets, and (iii) disclosing certain information to the Internal Revenue Service.

Although we believe that we have satisfied the asset tests described above and plan to take steps to ensure that we satisfy such tests for any quarter with respect to which retesting is to occur, there can be no assurance that we will always be successful or will not require a reduction in our overall interest in an issuer (including in a taxable REIT subsidiary). If we fail to cure any noncompliance with the asset tests in a timely manner and the relief provisions described above are not available, we would cease to qualify as a REIT. See " Failure to Qualify" below.

Annual Distribution Requirements

To maintain our qualification as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to the sum of:

- 90% of our "REIT taxable income"; and
- 90% of our after tax net income, if any, from foreclosure property; minus

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the excess of the sum of specified items of our non-cash income over 5% of our "REIT taxable income" as described below.

For these purposes, our "REIT taxable income" is computed without regard to the dividends paid deduction and our net capital gain. In addition, for purposes of this test, non-cash income means income attributable to leveling of stepped rents, original issue discount on purchase money debt, cancellation of indebtedness, and any like-kind exchanges that are later determined to be taxable.

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation (such as CRC), within the ten-year period following our acquisition of such asset, we would be required to distribute at

least 90% of the after-tax gain, if any, we recognized on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset, over (b) our adjusted basis in the asset, in each case, on the date we acquired the asset.

We generally must pay, or be treated as paying, the distributions described above in the taxable year to which they relate. At our election, a distribution will be treated as paid in a taxable year if it is declared before we timely file our tax return for such year and paid on or before the first regular dividend payment after such declaration, provided such payment is made during the twelve-month period following the close of such year. These distributions generally are taxable to our existing stockholders, other than tax-exempt entities, in the year in which paid. This is so even though these distributions relate to the prior year for purposes of the 90% distribution requirement. The amount distributed must not be preferential. To avoid being preferential, every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated other than according to its dividend rights as a class. To the extent that we do not distribute all of our net capital gain, or distribute at least 90%, but less than 100%, of our "REIT taxable

income," as adjusted, we will be required to pay tax on the undistributed amount at regular corporate tax rates. We believe we have made, and intend to continue to make, timely distributions sufficient to satisfy these annual distribution requirements and to minimize our corporate tax obligations.

We expect that our REIT taxable income will be less than our cash flow because of depreciation and other non-cash charges included in computing REIT taxable income. Accordingly, we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements due to timing differences between the actual receipt of income and payment of deductible expenses, and the inclusion of income and deduction of expenses in determining our taxable income. In addition, we may decide to retain our cash, rather than distribute it, in order to repay debt or for other reasons. If these timing differences occur, we may be required to borrow funds to pay cash dividends or we may be required to pay dividends in the form of taxable stock dividends in order to meet the distribution requirements.

Under certain circumstances, we may be able to rectify an

inadvertent failure to meet the 90% distribution requirement for a year by paying "deficiency dividends" to our stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends, subject to the 4% excise tax described below. However, we will be required to pay interest to the Internal Revenue Service based upon the amount of any deduction claimed for deficiency dividends.

Furthermore, we will be required to pay a 4% excise tax to the extent we fail to distribute during each calendar year, or in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January immediately following such year, at least the sum of 85% of our ordinary income for such year, 95% of our capital gain net income for the year and

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any undistributed taxable income from prior periods. Any ordinary income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

For purposes of the 90% distribution requirement and excise tax described above, distributions declared during the last three months of the taxable year, payable to stockholders of record on a specified date during such period and paid during January of the following year, will be treated as paid by us and received by our stockholders on December 31 of the year in which they are declared.

Failure to Qualify

Specified cure provisions are available to us in the event that we discover a violation of a provision of the Internal Revenue Code that would result in our failure to qualify as a REIT. Except with respect to violations of the REIT income tests and assets tests (for which the cure provisions are described above), and provided the violation is due to reasonable cause and not due to willful neglect, these cure provisions generally impose a $50,000 penalty for each violation in lieu of a loss of REIT status. If we fail to qualify for taxation as a REIT in any taxable

year, and the relief provisions of the Internal Revenue Code do not apply, we will be required to pay tax, including any applicable alternative minimum tax, on our taxable income at regular corporate tax rates. Distributions to our stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, and we will not be required to distribute any amounts to our stockholders. As a result, we anticipate that our failure to qualify as a REIT would reduce the cash available for distribution by us to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to our stockholders will be taxable as regular corporate dividends to the extent of our current and accumulated earnings and profits. In this event, subject to certain limitations under the Internal Revenue Code, corporate distributees may be eligible for the dividends-received deduction and individuals may be eligible for preferential tax rates on any qualified dividend income. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year in which we lost our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

Tax Aspects of the Partnerships

General

We own, directly or indirectly, interests in various partnerships and limited liability companies which are treated as partnerships or disregarded entities for United States federal income tax purposes and may own interests in additional partnerships and limited liability companies in the future. Our ownership interests in such partnerships and limited liability companies involve special tax considerations. These special tax considerations include, for example, the possibility that the Internal Revenue Service might challenge the status of one or more of the partnerships or limited liability companies in which we own an interest as partnerships or disregarded entities, as opposed to associations taxable as corporations, for United States federal income tax purposes. If a partnership or limited liability company in which we own an interest, or one or more of its subsidiary partnerships or limited liability companies, were treated as an association, it would be taxable as a corporation and would therefore be subject to an entity-level tax on its income. In this situation, the character of our assets and items of gross income would change, and could prevent us from satisfying the REIT asset tests and possibly the REIT income tests. See " Taxation of the Company Asset Tests" and " Taxation of the Company Income Tests." This, in turn, could prevent us from

qualifying as a REIT. See " Failure to Qualify" for a discussion of the effect of our failure to meet these tests. In addition, a change in the tax status of one or more of the partnerships or limited liability companies in which we own an interest might be treated as a taxable event. If so, we might incur a tax liability without any related cash distributions.

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Treasury Regulations that apply for tax periods beginning on or after January 1, 1997, provide that a domestic business entity not organized or otherwise required to be treated as a corporation (an "eligible entity") may elect to be taxed as a partnership or disregarded entity for United States federal income tax purposes. Unless it elects otherwise, an eligible entity in existence prior to January 1, 1997, will have the same classification for United States federal income tax purposes that it claimed under the entity classification Treasury Regulations in effect prior to this date. In addition, an eligible entity which did not exist or did not claim a classification prior to January 1, 1997, will be classified as a partnership or disregarded entity for United States federal income tax purposes unless it elects otherwise. With the exception of certain limited liability companies that have elected to be treated as corporations and have also elected with us to be treated as taxable REIT subsidiaries of ours, the partnerships and limited liability companies in which we own an interest intend to claim classification as partnerships or disregarded entities under these Treasury Regulations. As a result, we believe that these partnerships and limited liability companies will be classified as partnerships or

disregarded entities for United States federal income tax purposes and the remainder of the discussion under this section " Tax Aspects of the Partnerships" is applicable only to such partnerships and limited liability companies.

Allocations of Income, Gain, Loss and Deduction

A partnership or limited liability company agreement generally will determine the allocation of income and losses among partners or members. These allocations, however, will be disregarded for tax purposes if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the related Treasury Regulations. Generally, Section 704(b) of the Internal Revenue Code and the related Treasury Regulations require that partnership and limited liability company allocations respect the economic arrangement of the partners or members. If an allocation is not recognized for United States federal income tax purposes, the relevant item will be reallocated according to the partners' or members' interests in the partnership or limited liability company, as the case may be. This reallocation will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners or members with respect to such item. The allocations of taxable income and loss in each of the entities treated as partnerships in which we

own an interest are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the applicable Treasury Regulations.

Tax Allocations with Respect to the Properties

Under Section 704(c) of the Internal Revenue Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership or limited liability company in exchange for an interest in the partnership or limited liability company must be allocated in a manner so that the contributing partner or member is charged with the unrealized gain or benefits from the unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss generally is equal to the difference between the fair market value or book value and the adjusted tax basis of the contributed property at the time of contribution. These allocations are solely for United States federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners or members. Some of the partnerships and/or limited liability companies in which we own an interest were formed by way of contributions of appreciated property. The relevant partnership and/or limited liability company agreements

require that allocations be made in a manner consistent with Section 704(c) of the Internal Revenue Code. This could cause us to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to us if the contributed properties were acquired in a cash purchase, and could cause us to be allocated taxable gain upon a sale of the contributed properties in excess of the economic or book income allocated to us as a result of such sale. These adjustments could make it more difficult for us to satisfy the REIT distribution requirements.

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Tax Liabilities and Attributes Inherited from Other Entities

From time to time, we have and may continue to acquire entities organized as C corporations and REITs. Depending on how such acquisitions are structured, we may inherit tax liabilities and other tax attributes from the acquired entities.

Acquisitions of C Corporations in Carry-Over Basis Transactions

We have and may continue to acquire C corporations in transactions in which the basis of the corporations' assets in our hands is determined by reference to the basis of the asset in the hands of the acquired corporations (a "Carry-Over Basis Transaction"). Our merger with CRC in 2006 was structured as a merger that qualified as a reorganization under the Internal Revenue Code and, thus, was a Carry-Over Basis Transaction. In addition, we acquired the stock of SEUSA in 2007 and HCR PropCo. with respect to the acquisition of certain real property from HCR in 2011 in Carry-Over Basis Transactions.

In the case of assets we acquire from a C corporation in a Carry-Over Basis Transaction, if we dispose of any such asset in a taxable transaction during the ten-year period beginning on the

date of the Carry-Over Basis Transaction, then we will be required to pay tax at the highest regular corporate tax rate on the gain recognized to the extent of the excess of (a) the fair market value of the asset over (b) our adjusted basis in the asset, in each case determined as of the date of the Carry-Over Basis Transaction. The foregoing result with respect to the recognition of gain assumes that certain elections specified in applicable Treasury Regulations are either made or forgone by us or by the entity from which the assets are acquired, in each case, depending upon the date the acquisition occurred. Any taxes we pay as a result of such gain would reduce the amount available for distribution to our stockholders.

Our tax basis in the assets we acquire in a Carry-Over Basis Transaction may be lower than the assets' fair market values. This lower tax basis could cause us to have lower depreciation deductions and more gain on a subsequent sale of the assets than would be the case if we had directly purchased the assets in a taxable transaction.

In addition, in a Carry-Over Basis Transaction, we may succeed to the tax liabilities and earnings and profits of the acquired C corporation. To qualify as a REIT, we must distribute any such earnings and profits by the close of the taxable year in which transaction occurs. Any adjustments to the acquired

corporation's income for taxable years ending on or before the date of the transaction, including as a result of an examination of the corporation's tax returns by the Internal Revenue Service, could affect the calculation of the corporation's earnings and profits. If the Internal Revenue Service were to determine that we acquired earnings and profits from a corporation that we failed to distribute prior to the end of the taxable year in which the Carry-Over Basis Transaction occurred, we could avoid disqualification as a REIT by using "deficiency dividend" procedures. Under these procedures, we generally would be required to distribute any such earnings and profits to our stockholders within 90 days of the determination and pay a statutory interest charge at a specified rate to the Internal Revenue Service. We believe that we have satisfied the distribution requirements described above in connection with the CRC merger, the acquisition of SEUSA, and the acquisition of HCR PropCo.

At the closing of the CRC merger, we received an opinion of our counsel substantially to the effect that, on the basis of the facts, representations and assumptions set forth or referred to in such opinions, for United States federal income tax purposes the CRC merger qualified as a reorganization within the meaning of

Section 368(a) of the Internal Revenue Code. This opinion represents the best legal judgment of our counsel and is not binding on the Internal Revenue Service or the courts. If, contrary to such opinion, the CRC merger did not qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the CRC merger would have been treated as a sale of CRC's assets to us in a taxable transaction, and CRC would have recognized taxable gain. In such a case, as CRC's successor-in-interest, we would be required to pay the tax on any such gain.

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Acquisition of CRP

In October 2006, we acquired CNL Retirement Properties, Inc. ("CRP") pursuant to a taxable merger. In connection with the CRP merger, CRP's REIT counsel rendered an opinion to us, dated as of the closing date of the merger, substantially to the effect that on the basis of the facts, representations and assumptions set forth or referred to in such opinion, CRP qualified as a REIT under the Internal Revenue Code for the taxable years ending December 31, 1999 through the closing date of the merger. The opinion of counsel delivered in connection with the CRP merger represents the best legal judgment of CRP's counsel and is not binding on the Internal Revenue Service or the courts. If, however, contrary to the opinion of CRP's REIT counsel, CRP failed to qualify as a REIT for any of its taxable years, it would be required to pay federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Because the CRP merger was treated for United States federal income tax purposes as if CRP sold all of its assets in a taxable transaction, if CRP did not qualify as a REIT for the taxable year of the merger, it would be subject to tax on the excess of the fair market value of its assets over their adjusted tax basis.

As a successor in interest to CRP, we would be required to pay this tax.

Taxation of Holders of Our Stock

The following summary describes certain of the United States federal income tax consequences of owning and disposing of our stock.

Taxable U.S. Stockholders Generally

If you are a "U.S. holder," as defined below, this section or the section entitled "Tax-Exempt Stockholders" applies to you. Otherwise, the section entitled "non-U.S. Stockholders," applies to you.

Definition of U.S. Holder

A "U.S. holder" is a beneficial holder of our capital stock or debt securities who is:

- an individual citizen or resident of the United States;
- a corporation, partnership, limited liability company or other entity taxable

as a corporation or partnership for United States federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a

United States court and the control of one or more United States persons or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

A "non-U.S. holder" is a beneficial holder of shares of our common stock who is not a U.S. holder.

Distributions Generally

Distributions out of our current or accumulated earnings and profits will be treated as dividends and, other than capital gain dividends and certain amounts that have previously been subject to corporate level tax, discussed below, will be taxable to taxable U.S. holders as ordinary income when actually or constructively received. See " Tax Rates" below. As long as we qualify as a REIT, these distributions will not be eligible for the dividends-received deduction in the case of

U.S. holders that are corporations or, except to the extent provided in " Tax Rates" below, the preferential rates on qualified dividend income applicable to non-corporate taxpayers. For purposes of determining whether

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distributions to holders of our stock are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to our outstanding preferred stock and then to our outstanding common stock.

To the extent that we make distributions on our stock in excess of our current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to a U.S. holder. This treatment will reduce the U.S. holder's adjusted tax basis in its shares of our stock by the amount of the distribution, but not below zero. Distributions in excess of our current and accumulated earnings and profits and in excess of a U.S. holder's adjusted tax basis in its shares will be taxable as capital gain. Such gain will be taxable as long-term capital gain if the shares have been held for more than one year. Dividends we declare in October, November, or December of any year and which are payable to a holder of record on a specified date in any of these months will be treated as both paid by us and received by the holder on December 31 of that year, provided we actually pay the dividend on or before January 31 of the following year. U.S. holders may not include in their own income tax returns any of our net operating losses or capital losses.

Certain stock dividends, including dividends partially paid in our common stock and partially paid in cash that comply with recent Internal Revenue Service guidance, will be taxable to recipient U.S. holders to the same extent as if paid in cash. See "Taxation of the Company Annual Distribution Requirements" above.

Capital Gain Dividends

Dividends that we properly designate as capital gain dividends will be taxable to taxable U.S. holders as gains from the sale or disposition of a capital asset, to the extent that such gains do not exceed our actual net capital gain for the taxable year. These dividends may be taxable to non-corporate U.S. holders at preferential rates applicable to capital gains. See "Tax Rates" below. U.S. holders that are corporations may, however, be required to treat up to 20% of some capital gain dividends as ordinary income. If we properly designate any portion of a dividend as a capital gain dividend then, except as otherwise required by law, we are required by the terms of our corporate charter to allocate a portion of the total capital gain dividends paid or made available to holders of all classes of our stock for the year to the holders of our preferred stock in proportion to the amount that our total dividends, as determined for United States federal income tax purposes, paid or made available to the holders of such stock for the year

bears to the total dividends, as determined for United States federal income tax purposes, paid or made available to holders of all classes of our stock for the year.

Retention of Net Capital Gains

We may elect to retain, rather than distribute as a capital gain dividend, all or a portion of our net capital gains. If we make this election, we would pay tax on our retained net capital gains. In addition, to the extent we so elect, a U.S. holder generally would:

include its pro rata share of our undistributed net capital gains in computing its long-term capital gains in its return for its taxable year in which the last day of our taxable year falls, subject to certain

limitations as to the amount that is includable;

be deemed to have paid the capital gains tax imposed on us on the designated amounts included in the U.S. holder's long-term capital gains;

receive a credit or refund for the amount of tax deemed paid by it;

increase the adjusted basis of its stock by the difference between

the amount of includable gains and the tax deemed to have been paid by it; and

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in the case of a U.S. holder that is a corporation, appropriately adjust its earnings and profits for the retained capital gains in accordance with Treasury Regulations to be promulgated by the Internal Revenue Service.

Passive Activity Losses and Investment Interest Limitations

Distributions we make and gain arising from the sale or exchange by a U.S. holder of our shares will not be treated as passive activity income. As a result, U.S. holders generally will not be able to apply any "passive losses" against this income or gain. A U.S. holder may elect to treat capital gain dividends, capital gains from the disposition of stock and qualified dividend income as investment income for purposes of computing the investment interest limitation, but in such

case, the holder will be taxed at ordinary income rates on such amount. Other distributions made by us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation.

Dispositions of Our Stock

If a U.S. holder sells or disposes of shares of our stock to a person other than us, it will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and its adjusted basis in the shares for tax purposes. This gain or loss, except as provided below, will be long-term capital gain or loss if the U.S. holder has held the stock for more than one year at the time of such sale or disposition. If, however, a U.S. holder recognizes loss upon the sale or other disposition of our stock that it has held for six months or less, after applying certain holding period rules, the loss recognized will be treated as a long-term capital loss, to the extent the U.S. holder received distributions from us which were required to be treated as long-term capital gains.

Redemption of Our Stock

A redemption of shares of our stock will be treated under the

Internal Revenue Code as a distribution taxable as a dividend to the extent of our current and accumulated earnings and profits at ordinary income rates unless the redemption satisfies one of the tests set forth in Section 302(b) of the Internal Revenue Code and is therefore treated as a sale or exchange of the redeemed shares. The redemption will be treated as a sale or exchange if it:

- is "substantially disproportionate" with respect to the U.S. holder;
- results in a "complete termination" of the U.S. holder's stock interest in the Company; or
- is "not essentially equivalent to a dividend" with respect to the U.S. holder;

all within

the meaning of Section 302(b) of the Internal Revenue Code.

In determining whether any of these tests have been met, shares of capital stock, including common stock and other equity interests in us, considered to be owned by the U.S. holder by reason of certain constructive ownership rules set forth in the Internal Revenue Code, as well as shares of capital stock actually owned by the U.S. holder, must generally be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) of the Internal Revenue Code will be satisfied with respect to the U.S. holder depends upon the facts and circumstances at the time of the redemption, U.S. holders are advised to consult their tax advisors to determine the appropriate tax treatment.

If a redemption of shares of our stock is treated as a distribution taxable as a dividend, the amount of the distribution will be measured by the amount of cash and the fair market value of any property received. A U.S. holder's adjusted basis in the redeemed shares for tax purposes will be

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transferred to its remaining shares of our capital stock, if any. If a U.S. holder owns no other shares of our capital stock, such basis may, under certain circumstances, be transferred to a related person or it may be lost entirely.

If a redemption of shares of our stock is not treated as a distribution taxable as a dividend, it will be treated as a taxable sale or exchange in the manner described above under " Dispositions of Our Stock."

Tax Rates

The maximum tax rate for non-corporate taxpayers for (1) capital gains, including certain "capital gain dividends," is currently 15% (although depending on the characteristics of the assets which produced these gains and on designations which we may make, certain capital gain dividends may be taxed at a 25% rate); (2)"qualified dividend income" is currently 15%; and (3) ordinary income is currently 35%, which rate is scheduled to increase to 39.6%, as of January 1, 2013. In general, dividends payable by REITs are not eligible for the reduced tax rate on corporate dividends, except to the extent that certain holding requirements have been met and the REIT's dividends are attributable to dividends received from taxable corporations (such as its

taxable REIT subsidiaries), to income that was subject to tax at the corporate/REIT level (for example, if it distributed taxable income that it retained and paid tax on in the prior taxable year), or to dividends properly designated by the REIT as "capital gain dividends." The currently applicable provisions of the United States federal income tax laws relating to the 15% tax rate are currently scheduled to "sunset" or revert to the provisions of prior law effective for taxable years beginning after December 31, 2012, at which time the capital gains tax rate generally will be increased to 20% and the rate applicable to dividends will be increased to the tax rate then applicable to ordinary income. In addition, U.S. holders that are corporations may be required to treat up to 20% of some capital gain dividends as ordinary income.

Tax-Exempt Stockholders

Dividend income from us and gain arising upon a sale of shares of our stock generally should not be unrelated business taxable income to a tax-exempt holder, except as described below. This income or gain will be unrelated business taxable income, however, if a tax-exempt holder holds its shares as "debt-financed property" within the meaning of the Internal Revenue Code or if the shares are used in a trade or business of the tax-exempt holder. Generally, debt-financed

property is property the acquisition or holding of which was financed through a borrowing by the tax-exempt holder.

For tax-exempt holders which are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, or qualified group legal services plans exempt from United States federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) or (c)(20) of the Internal Revenue Code, respectively, income from an investment in our shares will constitute unrelated business taxable income unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for specific purposes so as to offset the income generated by its investment in our shares. These prospective investors should consult their tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a "pension-held REIT" may be treated as unrelated business taxable income as to certain trusts that hold more than 10%, by value, of the interests in the REIT. A REIT will not be a "pension-held REIT" if it is able to satisfy the "not closely held" requirement without relying on the "look-through" exception with respect to certain trusts or if such REIT is not "predominantly held" by "qualified trusts." As

a result of limitations on the transfer and ownership of stock contained in our charter, we do not expect to be classified as a "pension-held REIT," and as a result, the tax treatment described in this paragraph

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should be inapplicable to our holders. However, because our stock is publicly traded, we cannot guarantee that this will always be the case.

Non-U.S. Stockholders

The following discussion addresses the rules governing United States federal income taxation of the ownership and disposition of our stock by non-U.S. holders. These rules are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of United States federal income taxation that may be relevant to a non-U.S. holder in light of its particular circumstances and does not address any state, local or foreign tax consequences. We urge non-U.S. holders to consult their tax advisors to determine the impact of United States federal, state, local and foreign income tax laws on the acquisition, ownership, and disposition of shares of our stock, including any reporting requirements.

Distributions Generally

Distributions (including certain stock dividends) that are neither attributable to gain from our sale or exchange of United States real property interests nor designated by us as capital gain dividends will be treated as dividends of ordinary income to the extent that they are made out of our

current or accumulated earnings and profits. Such distributions ordinarily will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty unless the distributions are treated as effectively connected with the conduct by the non-U.S. holder of a United States trade or business. Under certain treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from a REIT. Certain certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption. Dividends that are treated as effectively connected with such a trade or business will be subject to tax on a net basis at graduated rates, in the same manner as dividends paid to U.S. holders are subject to tax, and are generally not subject to withholding. Any such dividends received by a non-U.S. holder that is a corporation may also be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to a non-U.S. holder to the extent that such distributions do not exceed the non-U.S. holder's adjusted basis in our stock, but rather will reduce the non-U.S.

holder's adjusted basis of such common stock. To the extent that these distributions exceed a non-U.S. holder's adjusted basis in our stock, they will give rise to gain from the sale or exchange of such stock. The tax treatment of this gain is described below.

For withholding purposes, we expect to treat all distributions as made out of our current or accumulated earnings and profits. As a result, except with respect to certain distributions attributable to the sale of United States real property interests described below, we expect to withhold United States income tax at the rate of 30% on any distributions made to a non-U.S. holder unless:

- a lower treaty rate applies and the non-U.S. holder files with us an Internal Revenue Service Form W-8BEN evidencing eligibility for that reduced treaty rate; or
- the non-U.S. holder files

an Internal Revenue Service Form W-8ECI with us claiming that the distribution is income effectively connected with the non-U.S. holder's trade or business.

However, amounts withheld should generally be refundable if it is subsequently determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits, provided that certain conditions are met.

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Capital Gain Dividends and Distributions Attributable to a Sale or Exchange of United States Real Property Interests

Distributions to a non-U.S. holder that we properly designate as capital gain dividends, other than those arising from the disposition of a United States real property interest, generally should not be subject to United States federal income taxation, unless:

(1) the investment in our stock is treated as effectively connected with the non-U.S. holder's United States trade or business, in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain, except that a non-U.S. holder that is a foreign corporation may also be subject to the 30% branch profits tax, as discussed above; or

(2) the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or

more during the taxable year and certain other conditions are met, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Pursuant to the Foreign Investment in Real Property Tax Act, which is referred to as "FIRPTA," distributions to a non-U.S. holder that are attributable to gain from our sale or exchange of United States real property interests (whether or not designated as capital gain dividends) will cause the non-U.S. holder to be treated as recognizing such gain as income effectively connected with a United States trade or business. non-U.S. holders would generally be taxed at the same rates applicable to U.S. holders, subject to a special alternative minimum tax in the case of nonresident alien individuals. We also will be required to withhold and to remit to the Internal Revenue Service 35% (or 15% to the extent provided in Treasury Regulations) of any distribution to a non-U.S. holder that is designated as a capital gain dividend, or, if greater, 35% (or 15% to the extent provided in Treasury Regulations) of a distribution to the non-U.S. holder that could have been designated as a capital gain dividend. The amount withheld is creditable against the

non-U.S. holder's United States federal income tax liability. However, any distribution with respect to any class of stock which is regularly traded on an established securities market located in the United States is not subject to FIRPTA, and therefore, not subject to the 35% U.S. withholding tax described above, if the non-U.S. holder did not own more than 5% of such class of stock at any time during the one-year period ending on the date of the distribution. Instead, such distributions generally will be treated in the same manner as ordinary dividend distributions.

Retention of Net Capital Gains

Although the law is not clear on the matter, it appears that amounts we designate as retained capital gains in respect of the common stock held by U.S. holders generally should be treated with respect to non-U.S. holders in the same manner as actual distributions by us of capital gain dividends. Under this approach, a non-U.S. holder would be able to offset as a credit against its United States federal income tax liability resulting from its proportionate share of the tax paid by us on such retained capital gains, and to receive from the Internal Revenue Service a refund to the extent of the non-U.S. holder's proportionate share of such tax paid by us exceeds its actual United States federal income tax liability.

Sale of Our Stock

Gain recognized by a non-U.S. holder upon the sale or exchange of our stock generally will not be subject to United States federal income taxation unless such stock constitutes a United States real property interest within the meaning of FIRPTA. Our stock will not constitute a United States real property interest so long as we are a domestically-controlled qualified investment entity. As discussed above, a domestically-controlled qualified investment entity includes a REIT in which at all times during a specified testing period less than 50% in value of its stock is held directly or indirectly by non-U.S. holders. We believe, but cannot guarantee, that we have been a "domestically-controlled

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qualified investment entity." Even if we have been a "domestically-controlled qualified investment entity," because our capital stock is publicly traded, no assurance can be given that we will continue to be a "domestically-controlled qualified investment entity."

Notwithstanding the foregoing, gain from the sale or exchange of our stock not otherwise subject to FIRPTA will be taxable to a non-U.S. holder if either (1) the investment in our stock is treated as effectively connected with the non-U.S. holder's United States trade or business or (2) the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions are met. In general, even if we are a domestically controlled qualified investment entity, upon disposition of our stock (subject to the 5% exception applicable to "regularly traded" stock described above), a non-U.S. holder may be treated as having gain from the sale or exchange of United States real property interest if the non-U.S. holder (1) disposes of our stock within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been treated as gain from the sale or exchange of a United States real property interest and (2) acquires, enters into a

contract or option to acquire, or is deemed to acquire other shares of our stock during the 61-day period beginning with the first day of the 30-day period described in clause (1). Non-U.S. holders should contact their tax advisors regarding the tax consequences of any sale, exchange, or other taxable disposition of our stock.

Even if we do not qualify as a "domestically-controlled qualified investment entity" at the time a non-U.S. holder sells or exchanges our stock, gain arising from such a sale or exchange would not be subject to United States taxation under FIRPTA as a sale of a "United States real property interest" if:

(1) our stock is "regularly traded," as defined by applicable Treasury Regulations, on an established securities market such as the NYSE; and

(2) such non-U.S. holder owned, actually and constructively, 5% or less of our stock throughout the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of our stock

were subject to United States taxation under FIRPTA, the non-U.S. holder would be subject to regular United States federal income tax with respect to such gain in the same manner as a taxable U.S. holder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In addition, if our stock is not then traded on an established securities market, the purchaser of the stock would be required to withhold and remit to the Internal Revenue Service 10% of the purchase price. If amounts withheld on a sale, redemption, repurchase, or exchange of our stock exceed the holder's substantive tax liability resulting from such disposition, such excess may be refunded or credited against such non-U.S. holder's United States federal income tax liability, provided that the required information is provided to the Internal Revenue Service on a timely basis. Amounts withheld on any such sale, exchange or other taxable disposition of our stock may not satisfy a non-U.S. holder's entire tax liability under FIRPTA, and such non-U.S. holder remains liable for the timely payment of any remaining tax liability.

Taxation of Holders of Our Debt Securities

The following summary describes certain of the principal United States federal income tax consequences of owning and disposing

of our debt securities. This discussion assumes the debt securities will be issued without original issue discount, sometimes referred to as "OID." OID with respect to a debt security is the excess, if any, of the debt security's "stated redemption price at maturity" over its "issue price." The "stated redemption price at maturity" is the sum of all payments provided by the debt security, whether designated as interest or as principal, other than payments of "qualified stated interest." Interest on debt security generally will constitute qualified stated interest if the interest is unconditionally payable, or will be constructively received under Section 451 of the Internal Revenue Code, in cash or in property, other than debt instruments issued by us, at least

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annually at a single fixed rate. The "issue price" of a debt security is the first price at which a substantial amount of the debt securities in the issuance that includes such debt security is sold for money, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The amount of OID with respect to a debt security will be treated as zero if the OID is less than an amount equal to 0.0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity, or, in the case of a debt security that provides for payment of any amount other than qualified stated interest prior to maturity, the weighted average maturity of the debt security. If one or more series of debt securities are issued with OID, disclosure concerning the tax considerations arising therefrom will be included with the applicable prospectus supplement.

Taxable U.S. Holders of Our Debt Securities

Stated Interest

U.S. holders generally must include interest on the debt securities in their United States federal taxable income as ordinary income:

when it

accrues, if the U.S. holder uses the accrual method of accounting for United States federal income tax purposes; or

when the U.S. holder actually or constructively receives it, if the U.S. holder uses the cash method of accounting for United States federal income tax purposes.

If we redeem or otherwise repurchase the debt securities, we may be obligated to pay additional amounts in excess of stated principal and interest. We intend to take the position that the debt securities should not be treated as contingent payment debt instruments because of this additional payment. Assuming such position is respected, a U.S. holder would be required

to include in income the amount of any such additional payment at the time such payment is received or accrued in accordance with such U.S. holder's method of accounting for United States federal income tax purposes. If the Internal Revenue Service successfully challenged this position, and the debt securities were treated as contingent payment debt instruments, U.S. holders could be required to accrue interest income at a rate higher than the stated interest rate on the debt securities and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange or redemption of a debt security. U.S. holders are urged to consult their tax advisors regarding the potential application to the debt securities of the contingent payment debt instrument rules and the consequences thereof.

Sale, Exchange or Other Taxable Disposition of the Debt Securities

Unless a nonrecognition provision applies, U.S. holders must recognize taxable gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a debt security. The amount of gain or loss equals the difference between (i) the amount the U.S. holder receives for the debt security in cash or other property, valued at fair market value, less the amount thereof that is attributable to accrued but unpaid interest on the debt security and (ii) the U.S. holder's adjusted tax

basis in the debt security. A U.S. holder's initial tax basis in a debt security generally will equal the price the U.S. holder paid for the debt security.

Gain or loss generally will be long-term capital gain or loss if at the time the debt security is disposed of it has been held for more than one year. Otherwise, it will be a short-term capital gain or loss.

Payments attributable to accrued interest which have not yet been included in income will be taxed as ordinary interest income. Currently, the maximum federal income tax rate on long-term capital gain on capital assets held by an individual generally is 15%. The United States federal income tax laws relating to this 15% tax rate are scheduled to "sunset" or revert to provisions of prior law effective for taxable years beginning after December 31, 2012, at which time the capital gains tax rate will be increased to 20%. The deductibility of capital losses is subject to limitations.

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Non-U.S. Holders of Our Debt Securities

This section applies to you if you are a non-U.S. holder of the debt securities. The term "non-U.S. holder" means a beneficial owner of a debt security that is not a U.S. holder, as defined above.

Special rules may apply to certain non-U.S. holders such as "controlled foreign corporations" and "passive foreign investment companies." Such entities are encouraged to consult their tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them.

Payments of Interest

Interest paid to a non-U.S. holder will not be subject to United States federal income taxes or withholding tax if the interest is not effectively connected with the non-U.S. holder's conduct of a trade or business within the United States, and the non-U.S. holder:

- does not actually or constructively own a 10% or greater interest in the total combined

voting power of all classes of our voting stock;

is not a controlled foreign corporation with respect to which we are a "related person" within the meaning of Section 864(d)(4) of the Internal Revenue Code;

is not a bank that received such debt securities on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or

business;
and

provides
the
appropriate
certification
as to
the
non-U.S.
holder's
status.
A
non-U.S.
holder
can
generally
meet
this
certification
requirement
by
providing
a
properly
executed
Internal
Revenue
Service
Form W-8BEN
or
appropriate
substitute
form
to us
or
our
paying
agent.
If the
debt
securities
are
held
through
a
financial
institution
or
other
agent
acting
on
the
non-U.S.
holder's
behalf,
the
non-U.S.
holder
may

be required to provide appropriate documentation to the agent. The agent will then generally be required to provide appropriate certifications to us or our paying agent, either directly or through other intermediaries. Special certification rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided to us or our paying

agent.

If a non-U.S. holder does not qualify for an exemption under these rules, interest income from the debt securities may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate) at the time such interest is paid. The payment of interest effectively connected with a United States trade or business, however, would not be subject to a 30% withholding tax so long as the non-U.S. holder provides us or our paying agent an adequate certification (currently on Internal Revenue Service Form W-8ECI), but such interest would be subject to United States federal income tax on a net basis at the rates applicable to United States persons generally. In addition, if the payment of interest is effectively connected with a foreign corporation's conduct of a United States trade or business, that foreign corporation may also be subject to a 30% (or lower applicable treaty rate) branch profits tax. To claim the benefit of a tax treaty, a non-U.S. holder must provide a properly executed Internal Revenue Service Form W-8BEN before the payment of interest and a non-U.S. holder may be required to obtain a United States taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

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Sale, Exchange or Other Taxable Disposition of Debt Securities

Non-U.S. holders generally will not be subject to United States federal income tax on any amount which constitutes capital gain upon a sale, exchange, redemption, retirement or other taxable disposition of a debt security, unless either of the following is true:

- the non-U.S. holder's investment in the debt securities is effectively connected with the conduct of a United States trade or business; or
- the non-U.S. holder is a nonresident alien individual holding the debt security as a capital asset, is present in the United States

for 183 or more days in the taxable year within which the sale, redemption or other disposition takes place, and certain other requirements are met.

For non-U.S. holders described in the first bullet point above, the net gain derived from the retirement or disposition of the debt securities generally would be subject to United States federal income tax at the rates applicable to United States persons generally (or lower applicable treaty rate). In addition, foreign corporations may be subject to a 30% (or lower applicable treaty rate) branch profits tax if the investment in the debt security is effectively connected with the foreign corporation's conduct of a United States trade or business. Non-U.S. holders described in the second bullet point above will be subject to a flat 30% United States federal income tax on the gain derived from the retirement or disposition of their debt securities, which may be offset by United States source capital losses, even though non-U.S. holders

are not considered residents of the United States.

Other Tax Considerations

State, Local and Foreign Taxes

We may be required to pay tax in various state or local jurisdictions, including those in which we transact business, and holders of our securities may be required to pay tax in various state or local jurisdictions, including those in which they reside. Our state and local tax treatment may not conform to the United States federal income tax consequences discussed above. In addition, a holder's state and local tax treatment may not conform to the United States federal income tax consequences discussed above. Consequently, prospective investors should consult their tax advisors regarding the effect of state and local tax laws on an investment in our securities.

Legislative or Other Actions Affecting REITs

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department which may result in statutory changes as well as revisions to

regulations and interpretations. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in our common stock.

Medicare 3.8% Tax on Investment Income

Under recently enacted legislation, for taxable years beginning after December 31, 2012, certain U.S. holders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on dividends and certain other investment income, including capital gains from the sale or other disposition of our common stock.

Foreign Account Tax Compliance Act

Recently enacted legislation will require, after December 31, 2013, withholding at a rate of 30% on dividends in respect of, and, after December 31, 2014, gross proceeds from the sale of, our common

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stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Treasury to report, on an annual basis, information with respect to shares in the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. Accordingly, the entity through which our common stock is held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, our common stock held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Secretary of the Treasury. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our common stock.

PLAN OF

DISTRIBUTION

We may sell the securities offered by this prospectus from time to time in one or more transactions, including without limitation:

- directly to one or more purchasers;
- through agents;
- to or through underwriters, brokers or dealers;
- through a combination of any of these methods.

A distribution of the securities offered by this prospectus may also be effected through the issuance of derivative securities, including without limitation, warrants, subscriptions, exchangeable securities, forward delivery contracts and the writing of options.

In addition, the manner in which we may sell some or all of the securities covered by this prospectus includes, without limitation,

through:

- a block trade in which a broker-dealer will attempt to sell as agent, but may position or resell a portion of the block, as principal, in order to facilitate the transaction;

- purchases by a broker-dealer, as principal, and resale by the broker-dealer for its account;

- ordinary brokerage transactions and transactions in which a

broker solicits purchasers;

or

privately negotiated transactions.

We may also enter into hedging transactions. For example, we may:

enter into transactions with a broker-dealer or affiliate thereof in connection with which such broker-dealer or affiliate will engage in short sales of the common stock pursuant to this prospectus, in which case such broker-dealer or affiliate may use shares of common stock received from

us to close out its short positions;

sell securities short and redeliver such shares to close out our short positions;

enter into option or other types of transactions that require us to deliver common stock to a broker-dealer or an affiliate thereof, who will then resell or transfer the common stock under this prospectus; or

loan or

pledge the common stock to a broker-dealer or an affiliate thereof, who may sell the loaned shares or, in an event of default in the case of a pledge, sell the pledged shares pursuant to this prospectus.

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In addition, we may enter into derivative or hedging transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. In connection with such a transaction, the third parties may sell securities covered by and pursuant to this prospectus and an applicable prospectus supplement or pricing supplement, as the case may be. If so, the third party may use securities borrowed from us or others to settle such sales and may use securities received from us to close out any related short positions. We may also loan or pledge securities covered by this prospectus and an applicable prospectus supplement to third parties, who may sell the loaned securities or, in an event of default in the case of a pledge, sell the pledged securities pursuant to this prospectus and the applicable prospectus supplement or pricing supplement, as the case may be.

A prospectus supplement with respect to each offering of securities will state the terms of the offering of the securities, including:

- the name or names of any underwriters or agents

and the amounts of securities underwritten or purchased by each of them, if any;

the public offering price or purchase price of the securities and the net proceeds to be received by us from the sale;

any delayed delivery arrangements;

any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation;

- any discounts or concessions allowed or reallowed or paid to dealers; and
- any securities exchange or markets on which the securities may be listed.

The offer and sale of the securities described in this prospectus by us, the underwriters or the third parties described above may be effected from time to time in one or more transactions, including privately negotiated transactions, either:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of

sale;

in "at the market offerings," within the meaning of Rule 415(a)(4) of the Securities Act, to or through a market maker or into an existing trading market, on an exchange or otherwise;

at prices related to the prevailing market prices; or

at negotiated prices.

General

Any public offering price and any discounts, commissions, concessions or other items constituting compensation allowed or reallowed or paid to underwriters, dealers, agents or remarketing firms may be changed from time to time.

Underwriters, dealers, agents and remarketing firms that participate in the distribution of the offered securities may be "underwriters" as defined in the Securities Act. Any discounts or commissions they receive from us and any profits they receive on the resale of the offered securities may be treated as underwriting discounts and commissions under the Securities Act. We will identify any underwriters, agents or dealers and describe their commissions, fees or discounts in the applicable prospectus supplement or pricing supplement, as the case may be.

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Underwriters and Agents

If underwriters are used in a sale, they will acquire the offered securities for their own account. The underwriters may resell the offered securities in one or more transactions, including negotiated transactions. These sales may be made at a fixed public offering price or prices, which may be changed, at market prices prevailing at the time of the sale, at prices related to such prevailing market price or at negotiated prices. We may offer the securities to the public through an underwriting syndicate or through a single underwriter. The underwriters in any particular offering will be mentioned in the applicable prospectus supplement or pricing supplement, as the case may be.

Unless otherwise specified in connection with any particular offering of securities, the obligations of the underwriters to purchase the offered securities will be subject to certain conditions contained in an underwriting agreement that we will enter into with the underwriters at the time of the sale to them. The underwriters will be obligated to purchase all of the securities of the series offered if any of the securities are purchased, unless otherwise specified in connection with any particular offering of securities. Any initial offering price and any

discounts or concessions allowed, reallowed or paid to dealers may be changed from time to time.

We may designate agents to sell the offered securities. Unless otherwise specified in connection with any particular offering of securities, the agents will agree to use their best efforts to solicit purchases for the period of their appointment. We may also sell the offered securities to one or more remarketing firms, acting as principals for their own accounts or as agents for us. These firms will remarket the offered securities upon purchasing them in accordance with a redemption or repayment pursuant to the terms of the offered securities. A prospectus supplement or pricing supplement, as the case may be will identify any remarketing firm and will describe the terms of its agreement, if any, with us and its compensation.

In connection with offerings made through underwriters or agents, we may enter into agreements with such underwriters or agents pursuant to which we receive our outstanding securities in consideration for the securities being offered to the public for cash. In connection with these arrangements, the underwriters or agents may also sell securities covered by this prospectus to hedge their positions in these outstanding securities, including in short sale transactions. If so, the underwriters or agents

may use the securities received from us under these arrangements to close out any related open borrowings of securities.

Dealers

We may sell the offered securities to dealers as principals. We may negotiate and pay dealers' commissions, discounts or concessions for their services. The dealer may then resell such securities to the public either at varying prices to be determined by the dealer or at a fixed offering price agreed to with us at the time of resale. Dealers engaged by us may allow other dealers to participate in resales.

Direct Sales

We may choose to sell the offered securities directly. In this case, no underwriters or agents would be involved.

Institutional Purchasers

We may authorize agents, dealers or underwriters to solicit certain institutional investors to purchase offered securities on a delayed delivery basis pursuant to delayed delivery contracts providing for payment and delivery on a specified future date. The applicable prospectus supplement or pricing supplement, as the case may be, will provide the details of any such arrangement, including the offering price and commissions payable on the solicitations.

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We will enter into such delayed contracts only with institutional purchasers that we approve. These institutions may include commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions.

VALIDITY OF SECURITIES

Unless otherwise indicated in the applicable prospectus supplement, the validity of the securities offered hereby will be passed upon for us by Ballard Spahr LLP, Baltimore, Maryland and/or Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. In addition, the description of material federal income tax consequences contained in this prospectus under the heading "Material United States Federal Income Tax Considerations" is based upon the opinion of Skadden, Arps, Slate, Meagher & Flom LLP.

EXPERTS

The consolidated financial statements and the related financial statement schedules of HCP, Inc. as of December 31, 2011 and 2010 and for the years then ended appearing in HCP, Inc.'s Current Report on Form 8-K dated July 24, 2012, and the effectiveness of HCP, Inc.'s internal control over financial reporting

appearing in the Annual Report on Form 10-K of HCP, Inc. for the year ended December 31, 2011, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such financial statements and financial statement schedules have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and the related financial statement schedules of HCP, Inc. for the year ended December 31, 2009 appearing in HCP, Inc.'s Annual Report for the year ended December 31, 2011, as amended by the Current Report on Form 8-K dated July 24, 2012, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and schedules are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of HCR Properties, LLC as of December 31, 2010 and 2009 and for the three years ended December 31, 2010, which are incorporated herein by reference to HCP, Inc.'s Current Report on Form 8-K,

filed on July 24, 2012, have been audited by Ernst & Young LLP, independent auditors as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.