

GOLD RESERVE INC
Form F-3
July 18, 2014

As filed with the Securities and Exchange Commission on July 18, 2014

Registration No. 333-

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

FORM F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

GOLD RESERVE INC.

(Exact name of registrant as specified in its charter)

Yukon, Canada
(State or other jurisdiction of incorporation or
organization)

N/A
(I.R.S. Employer
Identification Number)

**926 W. Sprague Avenue, Suite 200
Spokane, Washington 99201
Tel: (509) 623-1500**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Rockne J. Timm
926 W. Sprague Avenue, Suite 200
Spokane, Washington 99201
Tel: (509) 623-1500**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

**Albert G. McGrath, Jr.
Baker & McKenzie LLP
2300 Trammell Crow Center
2001 Ross Avenue
Dallas, Texas 75201
Tel: (214) 978-3028**

Approximate date of commencement of proposed sale to the public: From time to time on or after the effective date of this registration statement

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Class A Common Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
11% Senior Subordinated Convertible Notes due 2015	\$37,308,000	N/A	\$37,308,000.00 ⁽⁵⁾	\$4,805.27
11% Senior Subordinated Interest Notes due 2015	\$6,754,086 ⁽¹⁾	N/A	\$6,754,086.00 ⁽⁵⁾	\$869.93
Class A Common Shares, no par value, issuable upon conversion of the 11% Senior Subordinated Convertible Notes due 2015	10,659,424 ⁽²⁾	\$3.40 ⁽⁴⁾	\$36,242,041.60	(6)
Class A Common Shares purchase rights ⁽³⁾	10,659,424	N/A	N/A	(7)
Total:	N/A	N/A	\$80,304,127.60	\$5,675.20

- (1) Represents the greatest aggregate principal amount of 11% Senior Subordinated Interest Notes due 2015 (the "Interest Notes") as may be issued in connection with the regular payment of interest on the 11% Senior Subordinated Convertible Notes due 2015 (the "2015 Notes") and previously issued Interest Notes on or prior to the stated maturity of the 2015 Notes and the Interest Notes.
- (2) Represents the greatest number of Class A common shares, no par value (the "Class A Common Shares"), issuable upon conversion of the 2015 Notes being registered hereunder, subject to adjustment in certain circumstances. Pursuant to Rule 416 of the Securities Act of 1933, as amended (the "Securities Act"), there are also being registered hereunder such additional Class A Common Shares as may be issued to the Selling Securityholders because of any future stock dividends, stock distributions, stock splits, similar capital readjustments or other anti-dilution provisions of the 2015 Notes.
- (3) Each Class A Common Share registered hereunder includes an associated right to purchase from Gold Reserve Inc. (the "Company") one additional Class A Common Share (the "Purchase Rights") pursuant to the Company's amended and restated shareholders rights plan agreement, dated as of June 11, 2009, as amended on June 27, 2012 (the "Rights Plan"). The Purchase Rights are not exercisable until the occurrence of events specified in the Rights Plan and are transferrable solely with the associated Class A Common Shares. The value attributable to the Purchase Rights, if any, is reflected in the value of the associated Class A Common Shares.
- (4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act, based upon the U.S. dollar equivalent of the average of the high and low sales prices of the Class A Common Shares as reported on the TSX Venture Exchange on July 15, 2014. Based on an exchange rate of one Canadian dollar to \$0.9295 U.S. dollars on July 15, 2014.
- (5) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act, based on 100% of the aggregate principal amount of the 2015 Notes and the Interest Notes, respectively.
- (6) Pursuant to Rule 457(i) under the Securities Act, there is no additional filing fee with respect to the Class A Common Shares issuable upon conversion of the 2015 Notes because no additional consideration will be received by the Company.
- (7) In accordance with Rule 457(g), no additional registration fee is required with respect to the Purchase Rights.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay

its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The Selling Securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 18, 2014

PROSPECTUS

GOLD RESERVE INC.

**\$37,308,000 11% Senior Subordinated Convertible Notes due 2015,
Up to \$6,754,086 11% Senior Subordinated Interest Notes due 2015 and
Up to 10,659,424 Class A Common Shares**

On June 18, 2014, we consummated the restructuring of approximately \$25.3 million aggregate principal amount of our outstanding 5.50% Senior Subordinated Convertible Notes due 2014 ("2014 Notes"). In connection with the restructuring, we issued approximately \$25.3 million aggregate principal amount of 11% Senior Subordinated Convertible Notes due 2015 (the "Modified Notes"). Simultaneously with the issuance of the Modified Notes, we issued \$12 million aggregate principal amount of 11% Senior Subordinated Convertible Notes due 2015 (the "New Notes" and together with the Modified Notes, the "2015 Notes") having the same terms as the Modified Notes, other than CUSIP number and issue price. Interest on the 2015 Notes will accrue and be capitalized quarterly and be payable in a new series of 11% Senior Subordinated Interest Notes due 2015 (the "Interest Notes" and together with the 2015 Notes, the "Notes"). Interest on the Interest Notes will also be payable in additional Interest Notes.

This prospectus covers resales from time to time by the selling securityholders named under "*Selling Securityholders*" (the "Selling Securityholders") of any or all of the 2015 Notes held by the Selling Securityholders, any or all of the Interest Notes held by, or to be issued to, the Selling Securityholders and any Class A common shares, no par value (the "Class A Common Shares"), issuable upon conversion of the 2015 Notes. The Notes and the Class A Common Shares are referred to collectively herein as the "Securities." The restructuring of the 2014 Notes and the simultaneous issuance of the New Notes is collectively referred to herein as the "Restructuring and New Notes Sale."

The Securities may be offered from time to time by the Selling Securityholders through ordinary brokerage transactions, in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices and in other ways as described in the "*Plan of Distribution*."

The Notes bear interest at a rate of 11% per annum. Interest on the Notes will accrue and be capitalized quarterly and be payable on June 30, September 30, December 31 and March 31 of each year. Interest on the Notes is payable in Interest Notes. The Notes will mature on December 31, 2015.

Holders of the 2015 Notes may convert their 2015 Notes into 285.71 Class A Common Shares per \$1,000 principal amount of indebtedness evidenced by the 2015 Notes (which is equivalent to a conversion price of \$3.50 per share), subject to adjustment upon the occurrence of certain events. The Interest Notes are not convertible into our Class A Common Shares or any other security. The Notes are our general unsecured obligations and rank equal in right of payment to all of our existing and future senior indebtedness, and senior in right of payment to our future subordinated debt. The Notes are currently evidenced by physical certificates held in the names of the Selling Securityholders. In

connection with the filing of the registration statement of which this prospectus forms a part, we intend to request that the Notes become eligible for deposit with The Depository Trust Company ("DTC"). If and when the Notes have been made eligible with DTC, the Notes will be evidenced by one or more global notes deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected through, records maintained by DTC and its direct and indirect participants.

Our Class A Common Shares are listed for trading on the TSX Venture Exchange (the "TSXV") under the symbol "GRZ.V" and trade on the OTCQB under the symbol "GDRZF". On July 17, 2014, the closing sale prices of the Class A Common Shares as reported by the TSXV and OTCQB were Cdn \$• and \$•, respectively. Our Class A Common Shares have full voting, dividend and liquidation rights. We do not intend to apply for a listing of the Notes on any securities exchange or for inclusion of the Notes in any automated quotation system.

An investment in the Securities is speculative and involves a high degree of risk. See "*Risk Factors*" beginning on page 12. You should read this document and the documents incorporated by reference into this prospectus before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The Securities are being offered to investors in the United States of America, other than in the states of Montana, New Hampshire and North Dakota.

The date of this prospectus is , 2014.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form F-3 that we filed with the U.S. Securities and Exchange Commission (the "SEC") with respect to \$37,308,000 aggregate principal amount of 2015 Notes, up to \$6,754,086 aggregate principal amount of Interest Notes and up to 10,659,424 Class A Common Shares which may be offered and sold from time to time in one or more offerings by the Selling Securityholders named in the section "*Selling Securityholders*."

This prospectus only provides you with a general description of the Securities that the Selling Securityholders may sell or offer. Each time a Selling Securityholder sells Securities, if required, we will provide a prospectus supplement or amendment containing specific information about the offering. Any such prospectus supplement or amendment may include a discussion of any risk factors or other special considerations that apply to that offering. The prospectus supplement or amendment may also add, update or change the information in this prospectus or in the documents that we have incorporated into this prospectus by reference. To the extent that any statement made in a prospectus supplement or amendment conflicts with statements made in this prospectus, the statements made in the prospectus supplement or amendment will be deemed to modify or supersede those made in this prospectus.

The rules of the SEC allow us to incorporate by reference certain information into this prospectus. Before purchasing any of the Securities, you should carefully read this prospectus, especially the information discussed under "*Risk Factors*," and any prospectus supplement or amendment together with the additional information incorporated by reference herein. See "*Incorporation by Reference*" for a description of the documents from which information is incorporated and "*Where You Can Find More Information*" to learn how to obtain a copy of such documents.

You should rely only upon the information contained in, or incorporated by reference into, this document. Neither we nor any Selling Securityholder have authorized any other person to provide you with different information. No other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the Securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information appearing in this document is accurate only as of the date on the front cover of this document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless the context requires otherwise, reference in this prospectus to:

- "we," "us," "our," "Gold Reserve," the "registrant" or the "Company" refers to Gold Reserve Inc. and its subsidiaries
- "\$," "U.S. \$," or "U.S. dollars" in this document refer to U.S. dollars
- "Cdn \$" or "Canadian dollars" refer to Canadian dollars
- "Securities Act" refers to the U.S. Securities Act of 1933, as amended
- "Exchange Act" refers to the U.S. Securities Exchange Act of 1934, as amended

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information presented or incorporated by reference in this document contains both historical information and "forward-looking statements" (within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Securities Act (Ontario)) that may state our intentions, hopes, beliefs, expectations or predictions for the future. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies that may cause our actual financial results, performance, or achievements to be materially different from those expressed or implied herein and many of which are outside our control. Some of the material factors or assumptions used to develop forward-looking statements include, without limitation, the uncertainties associated with: the arbitration proceedings under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID") against the Bolivarian Republic of Venezuela seeking compensation in the arbitration for all of the loss and damage resulting from Venezuela's wrongful conduct (Gold Reserve Inc. v. Bolivarian Republic of Venezuela (ICSID Case No. ARB(AF)/09/1)) (the "Brisas arbitration"), actions by the Venezuelan government, economic and industry conditions influencing the future sale of the Brisas Project (as defined herein) and the related equipment and conditions or events impacting our ability to fund our operations or service our debt.

Forward-looking statements involve risks and uncertainties, as well as assumptions that may never materialize, prove incorrect or materialize other than as currently contemplated which could cause our results to differ materially from those expressed or implied by such forward-looking statements. The words "believe," "anticipate," "expect," "intend," "estimate," "plan," "may," "could" and other similar expressions that are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. Any such forward-looking statements are not intended to provide any assurances as to future results.

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

- outcome of our arbitration against the Bolivarian Republic of Venezuela;
- continued servicing or restructuring of our, notes, convertible notes or other obligations as they come due;
- prospects for exploration and development of other mining projects by us;
- equity dilution resulting from the conversion of the convertible notes in part or in whole to Class A Common Shares;
- value, if any, realized from the disposition of the remaining Brisas Project related assets;
- ability to maintain continued listing on the TSXV or continued trading on the OTCQB;
- competition with companies that are not subject to, or do not follow, Canadian and U.S. laws and regulations;
- corruption, uncertain legal enforcement and political and social instability;
- our current liquidity and capital resources and access to additional funding in the future if required;

- regulatory, political and economic risks associated with foreign jurisdictions including changes in laws and legal regimes;
- currency, metal prices and metal production volatility;

- adverse U.S., Canadian and/or Mexican tax consequences;
- abilities and continued participation of certain key employees; and
- risks normally incident to the exploration, development and operation of mining properties.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. See "*Risk Factors*."

Investors are cautioned not to put undue reliance on forward-looking statements, whether in this document, other documents periodically filed or furnished with the SEC or other securities regulators or presented on our website. Forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this notice. We disclaim any intent or obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of assumptions or factors, whether as a result of new information, future events or otherwise, subject to our disclosure obligations under applicable rules promulgated by the SEC. Investors are urged to read our filings with U.S. and Canadian securities regulatory authorities, which can be viewed online at www.sec.gov and www.sedar.com, respectively.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act we are required to file or furnish annual and special reports and other information with the SEC. As a foreign private issuer under the Exchange Act, we are exempt from rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. We are also exempt from Regulation FD.

You may read and copy any of the reports, statements, or other information we file or furnish with the SEC at the SEC's Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC filings are also available to the public from commercial document retrieval services and are available at the Internet website maintained by the SEC at www.sec.gov.

These reports and other information filed or furnished by us with the SEC are also available free of charge at our website at www.goldreserveinc.com, under our "Investor Relations" tab. Our website also contains filings made with the Canadian securities regulatory authorities, which can also be accessed at www.sedar.com.

The information contained in our website is not incorporated by reference and does not constitute a part of this prospectus.

INCORPORATION BY REFERENCE

We have filed with the SEC a registration statement on Form F-3 under the Securities Act covering the Securities offered by this prospectus. This prospectus does not contain all of the information that you can find in our registration statement and the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance such statement is qualified by reference to each such contract or document filed or incorporated by reference as an exhibit to the registration statement.

The SEC allows us to "incorporate by reference" the information we file or furnish with them. This means that we can disclose important information to you by referring you to other documents that are legally considered to be part of this prospectus, and later information that we file or furnish with the SEC will automatically update and supersede the information in this prospectus. We incorporate by reference into this prospectus the following documents:

- Our annual report on Form 40-F, for our fiscal year ended December 31, 2013 filed on April 29, 2014;
- Our reports on Form 6-K furnished on June 1, 2012, April 29, 2014, May 1, 2014, May 5, 2014, May 7, 2014 (two reports), May 23, 2014 (no interim financial information incorporated by reference is audited), June 10, 2014, June 20, 2014 and June 26, 2014;
- All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the Form 40-F mentioned above;
- The description of Capital Stock set forth in the Registration Statement on Form F-10 (File No. 333-142655) filed on May 7, 2007; and
- Our Articles of Incorporation and our By-laws contained in Exhibits 3.1 and 3.2 to the Proxy Statement/Joint Prospectus included as a part of our Registration Statement on Form S-4 (Registration No. 333-68061) filed with the SEC on November 27, 1998.

In particular, we incorporate by reference our audited financial statements included in Exhibit 99.2 to our Annual Report on Form 40-F for the fiscal year ended December 31, 2013.

In the event of conflicting information in these documents, the information in the latest filed documents should be considered correct.

In addition, any future filings made with the SEC under the Exchange Act after the date of this prospectus and prior to the termination of the offering of the Securities made under this prospectus, and any future reports on Form 6-K furnished by us to the SEC during such period or portions thereof that are identified in such forms as being incorporated into the registration statement of which this prospectus forms a part, shall be considered to be incorporated in this prospectus by reference and shall be considered a part of this prospectus from the date of filing of such documents.

You may obtain copies of any of these filings as described below, through the SEC or through the SEC's Internet website, or through our website as described in "*Where You Can Find More Information.*" Documents incorporated by reference are available without charge, excluding all exhibits unless an exhibit has been specifically incorporated by reference into this prospectus, by requesting them in writing or by telephone to:

Mary E. Smith
Gold Reserve Inc.,
926 W. Sprague Avenue, Suite 200
Spokane, Washington 99201
Tel: 509-623-1500

RECENT EVENTS

On June 18, 2014, we consummated the Restructuring and New Notes Sale pursuant to a subordinated note restructuring and note purchase agreement, dated as of June 18, 2014 (the "2014 Restructuring Agreement"), among us, certain holders of the 2014 Notes and the purchasers of the New Notes. Pursuant to the 2014 Restructuring Agreement, we extended the maturity date of approximately \$25.3 million aggregate principal amount of the 2014 Notes from June 29, 2014 to December 31, 2015 and issued \$12 million aggregate principal amount New Notes also maturing December 31, 2015. We paid with respect to the New Notes, a fee of 2.5% of the principal (or approximately \$0.3 million) in the form of an original issue discount ("OID") and with respect to the 2014 Notes, a cash extension fee of 2.5% of the principal (or approximately \$0.6 million). See "*Description of the Notes*" for a discussion of the terms of the 2015 Notes and the Interest Notes.

PROSPECTUS SUMMARY

The following summary highlights certain information contained elsewhere in this prospectus and in the documents incorporated by reference herein. It does not contain all the information that may be important to you. You should carefully read this prospectus and the documents incorporated by reference herein, before deciding to invest in our securities.

The Company

We are incorporated under the laws of Yukon, Canada and are engaged in the business of acquiring, exploring and developing mining projects. We are an exploration stage company incorporated in 1998 under the laws of Yukon, Canada and are the successor issuer to Gold Reserve Corporation, which was incorporated in 1956. From 1992 to 2008 we focused substantially all of our management and financial resources on the development of the Brisas Project, a gold and copper project located in the Kilometer 88 mining district of the State of Bolivar in south-eastern Venezuela (the "Brisas Project"). The Brisas Project and our Choco 5 property (also located in Venezuela) were expropriated by the Venezuelan government in 2008.

As of June 30, 2014 (the last business day of our most recently completed second fiscal quarter), less than 50% of our outstanding voting securities were directly or indirectly held of record by residents of the U.S. Because the share ownership percentage of U.S. residents of the Company is less than 50% and we are organized under the laws of Yukon, Canada, we are a "foreign private issuer" pursuant to Rule 3b-4 under the Exchange Act. We previously reported as a foreign private issuer for many years prior to our annual report on Form 10-K for the fiscal year ended December 31, 2009, as during 2009 our shareholder composition changed such that more than 50% of our outstanding voting securities were directly or indirectly held of record by residents of the U.S. and greater than one-half of our management and directors were U.S. residents. As of June 30, 2011, we returned to foreign private issuer reporting for administrative ease and as a cost-savings measure.

Our administrative office is located at 926 West Sprague Avenue, Suite 200, Spokane, WA 99201, U.S.A. and our telephone and fax numbers are (509) 623-1500 and (509) 623-1634, respectively.

Relationship to Selling Securityholders

Except as otherwise disclosed in this prospectus, the Selling Securityholders do not have, and within the past three years have not had, any position, office or other material relationship with us.

In the second quarter of 2012, certain of the Selling Securityholders or their affiliates, and certain other holders of the Company's convertible notes, entered into a restructuring agreement (the "2012 Restructuring Agreement") with the Company. During the fourth quarter of 2012, pursuant to the 2012 Restructuring Agreement, we consummated the restructuring of \$101.3 million of our \$102.3 million total aggregate principal amount of 5.50% Senior Subordinated Convertible Notes due June 15, 2022 (the "Original Notes"). In connection with the 2012 restructuring, we paid approximately \$33.8 million in cash and issued approximately \$42.2 million in equity (representing 12,412,501 Class A Common Shares at \$3.40 per share), approximately \$25.3 million aggregate principal amount of 2014 Notes (convertible into Class A Common Shares under certain circumstances at \$4.00 per share) and a contingent value right distributed pro-rata to the participating holders totaling 5.468% of any award or settlement of our ICSID arbitration. Pursuant to the 2012 Restructuring Agreement, the Selling Securityholders or their affiliates received a total of 12,406,913 Class A Common Shares, 2014 Notes in the aggregate principal amount of approximately \$25.3 million, cash in the amount of approximately \$32.7 million and 5.465% contingent value rights.

During the third quarter of 2013, we closed a private placement for gross proceeds totaling \$5.25 million. The private placement consisted of 1,750,000 units comprised of one Class A Common Share and one-half of one Class A

Common Share purchase warrant, with each whole warrant exercisable by the holder for a period of 2 years

after its issuance to acquire one Class A Common Share at a price of \$4.00 per share. Certain of the Selling Securityholders participated in the private placement.

On June 18, 2014, we consummated the Restructuring and New Notes Sale pursuant to the 2014 Restructuring Agreement. Pursuant to the 2014 Restructuring Agreement, we restructured almost all of our \$25.3 million aggregate principal amount of 2014 Notes and issued an additional \$12 million aggregate principal amount New Notes to certain of the Selling Securityholders. We also paid with respect to the New Notes, a fee of 2.5% of the principal (or approximately \$0.3 million) in the form of OID and with respect to the 2014 Notes, a cash extension fee of 2.5% of the principal (or approximately \$0.6 million).

See "*Selling Securityholders*" for the amount of each of the Securities beneficially owned by the Selling Securityholders prior to this offering, the amount of each of the Securities being registered for resale, as well as the current percentage of the class owned by each Selling Securityholder.

The Offering

Class A Common Shares to be offered by the Selling Securityholders.....

10,659,424 Class A Common Shares that are issuable upon the conversion of our 2015 Notes held by the Selling Securityholders.

OTCQB Symbol for Class A Common Shares.....

GDRZF

TSXV Symbol for Class A Common Shares.....

GRZ.V

Notes to be offered by the

Selling Securityholder.....

\$37,308,000 aggregate principal amount of 11% Senior Subordinated Convertible Notes due 2015, which amount includes \$25,308,000 aggregate principal amount of Modified Notes and \$12,000,000 aggregate principal amount of New Notes. The Modified Notes and the New Notes were issued under different CUSIP numbers and are not, and in the future will not be, fungible with each other or considered part of the same issue for federal income tax purposes.

Maturity Date of the Notes.....

Up to \$6,754,086 aggregate principal amount of 11% Senior Subordinated Interest Notes due 2015, which amount represents the greatest aggregate principal amount of Interest Notes that may be issued under the Indenture (as defined herein) in connection with the regular payment of interest on the 2015 Notes and previously issued Interest Notes on or prior to the maturity date of the Notes.

December 31, 2015, unless earlier repurchased or converted (if applicable).

Interest Payment Dates of the Notes.....

June 30, September 30, December 31 and March 31 of each year.

Interest.....

11% per annum accruing and capitalizing quarterly. Interest will be computed on the basis of a 360-day year comprised of twelve (12) 30-day months.

Ranking.....

The Notes are our general unsecured obligations.

Conversion Rights.....

Holders may convert their 2015 Notes at their option on any day to and including the business day immediately preceding the maturity date into our Class A Common Shares at the conversion rate of \$3.50 per share, subject to adjustment in certain circumstances. The Interest Notes are not convertible into our Class A Common Shares or any other security.

Trustee and Paying Agent.....

U.S. Bank National Association is the Trustee and paying agent. Computershare Trust Company of Canada is the Co Trustee.

DTC

Eligibility.....

The Notes are currently evidenced by physical certificates held in the names of the Selling

Securityholders. In connection with the filing of the registration statement of which this prospectus forms a part, we intend to request that the Notes become eligible for deposit with DTC. If and when the Notes have been made eligible with DTC, the Notes will be evidenced by one or more global notes deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected through, records maintained by DTC and its direct and indirect participants. See "*Description of the Notes—Global note, book-entry form.*"

The Notes will not be listed on any securities exchange. The Indenture and the Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York.

Each Selling Securityholders will determine when and how it will sell the Securities offered in this prospectus. We will not receive proceeds from the resale of the Securities by the Selling Securityholders.

See "*Risk Factors*" beginning on page 12 and other information included in this prospectus or incorporated by reference herein for a discussion of factors you should consider before deciding to invest in the Securities.

Listing and Trading of Notes.....
 Governing Law.....

 Terms of the Offering.....
 Use of Proceeds.....
 Risk Factors.....

RISK FACTORS

Set out below are certain risk factors that could materially adversely affect our future business, operating results or financial condition. Investors should carefully consider these risk factors and the other risk factors and information in this prospectus, including under "Cautionary Note Regarding Forward-Looking Statements" and our filings with the SEC. These filings include our annual report on Form 40-F for the year ended December 31, 2013 filed with the SEC on April 29, 2014, which is incorporated by reference in this prospectus, our reports on Form 6-K subsequently furnished to the SEC of which we have determined to incorporate by reference into this prospectus, and the other documents incorporated by reference in this prospectus, before making investment decisions involving the Securities.

Risks Related to Our Arbitration Proceedings

Failure to prevail in, or settle, the Brisas arbitration and to obtain adequate compensation from the Venezuelan government for its expropriation of the Brisas Project and our Choco 5 property could materially adversely affect the Company.

In October 2009, we filed a Request for Arbitration with ICSID against the Bolivarian Republic of Venezuela seeking compensation for all of the loss and damage resulting from the Venezuelan government's wrongful conduct, including its expropriation of the Brisas Project and our Choco 5 property. Our claim includes the full market value of the legal rights to develop the Brisas Project as of the date of the tribunal's decision, the value of the Choco 5 property and interest on the claim calculated since the loss. Our claim as last updated in our July 2011 reply totals approximately \$2.1 billion, which includes interest from April 14, 2008 (the date of the expropriation) to July 29, 2011 (the date of our reply) of approximately \$400 million. The cost of prosecuting the Brisas arbitration is substantial and there is no assurance that we will be successful in establishing the Venezuelan government's liability or, if successful, will collect any award by the arbitration tribunal for compensation from Venezuela. Failure to prevail in the Brisas arbitration and obtain adequate compensation for the expropriation of these properties could materially adversely affect the Company, including our ability to service debt, including the Notes (see "Risks Related to the Notes"), and our ability to maintain sufficient liquidity to operate as a going concern (see "Risks Related to the Business").

We do not know when our arbitration proceedings against Venezuela will be completed.

We understand that numerous pending arbitration actions are being pursued against Venezuela at this time before the ICSID (See ICSID website at icsid.worldbank.org/ICSID/) and further understand that Venezuela has reportedly settled and/or made full or partial payment for damages to a limited number of claimants. ICSID Arbitrations are non-public proceedings and, as a result, we have no specific information regarding the actual amounts paid or what percentage such payments represented of the original claim against Venezuela or the timing of such payments.

The tribunal held an oral hearing on the merits with the parties in February 2012 and the parties submitted post-hearing briefs in March, May and June 2012 as requested by the tribunal. In July 2012, the tribunal issued a procedural order requesting both parties to submit further expert reports addressing certain valuation issues. The expert initial and reply reports for both parties were filed May 24 and June 28, 2013, respectively, and on August 5, 2013 the parties filed final comments on the expert reports. On October 15 and 16, 2013, the tribunal held an oral hearing focused on the additional expert evidence requested in its previous procedural order. Subsequent to the October oral hearing the tribunal issued post-hearing procedural instructions and the parties submitted post-hearing briefs on December 23, 2013. Pursuant to an April 30, 2014 request by the tribunal, both parties submitted their legal and technical costs in late May 2014.

Notwithstanding the historical average, based on the uncertain nature of arbitration under investment treaties, we do not have a basis upon which to estimate the timing or the amount of an award or settlement, if any, or

the likelihood of its collection. Accordingly, there can be no assurances that the Brisas arbitration proceedings will be completed or settled within any specific or reasonable period of time, we will receive any award or settlement or that any award or settlement will be collected within any specific or reasonable period of time following the award or settlement, if any.

Risks Related to the Notes

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

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 prospectus, our ability to establish the Venezuelan government's liability in the Brisas arbitration and our ability to collect on any award by the arbitration tribunal for compensation from Venezuela. 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.

We may not have the ability to repurchase the Notes in cash upon the occurrence of a fundamental change, or to pay cash upon the conversion of 2015 Notes, as required by the Indenture.

We will be required to make an offer to repurchase the Notes upon the occurrence of a fundamental change as described under "*Description of the Notes.*" We may not have sufficient funds to repurchase the Notes in cash or to make the required repayment at such time or have the ability to arrange necessary financing on acceptable terms.

A fundamental change may also constitute an event of default or require prepayment under, or result in the acceleration of the maturity of, our other indebtedness outstanding at the time. Our ability to repurchase the Notes in cash or make any other required payments may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. Our failure to repurchase the Notes or pay cash or issue our Class A Common Shares in respect of conversions, if applicable, when required would result in an event of default with respect to the Notes.

Your right to receive payments on the Notes is subordinated to certain future indebtedness which may be incurred.

The Indenture governing the Notes, as modified by the Second Supplemental Indenture (as defined herein), prohibits us from (i) pledging, hypothecating, transferring or otherwise disposing of or encumbering our Mining Data (as defined herein) or any Arbitration Award (as defined herein) (or permitting any subsidiary to take any of the foregoing actions) or (ii) incurring any additional indebtedness that ranks equal in right of payment or senior in right of payment to the Notes (or permitting any subsidiary to incur any indebtedness), subject to certain exceptions, including the issuance in the future of Interest Notes, in each case without the consent of holders of not less than 75% in aggregate principal amount of the outstanding 2015 Notes and Interest Notes, voting together as a single class. Notwithstanding the foregoing restrictions, to the extent we incur certain indebtedness which may be senior to the Notes and/or secured by a lien on substantially all of our assets, including, but not limited to, the pledge of all rights, properties, equipment or all or a portion of the capital stock of certain of our subsidiaries holding such assets, the Notes also would be effectively subordinated to such indebtedness and other secured debt to the extent of the collateral securing the indebtedness. As a result, upon any distributions to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, the lenders of such indebtedness would have the right to be paid in full before any payment could be made with respect to the Notes. Accordingly, all or a substantial portion of our assets could be unavailable to satisfy the claims of the holders of Notes.

The Notes are effectively subordinated to all liabilities of our subsidiaries.

All or a substantial portion of the indebtedness we may incur could be incurred and/or guaranteed by our subsidiaries. None of our subsidiaries has guaranteed or otherwise become obligated with respect to the Notes. Accordingly, our right to receive assets from any of our subsidiaries upon such subsidiary's bankruptcy, liquidation or reorganization and the right of holders of the Notes to participate in those assets, is effectively subordinated to claims of that subsidiary's creditors, including trade creditors.

The ability of our subsidiaries and other interests to pay dividends and make other payments to us may be restricted by, among other things, applicable corporate and other laws and regulations as well as agreements to which our subsidiaries may become a party.

We could incur substantially more debt and may take other actions which may affect our ability to satisfy our obligations under the Notes.

Subject to the limitations described under the risk factor entitled " *Your right to receive payments on the Notes is subordinated to certain future indebtedness which may be incurred*" and certain other anti-layering limitations, we will not be restricted under the terms of the Notes or the Indenture from incurring or guaranteeing additional indebtedness, including secured debt. In addition, the covenants applicable to the Notes do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. We may incur additional substantial debt in the future. In addition, such additional indebtedness could contain covenants that, among other things, restrict our ability to sell assets, incur additional secured indebtedness, engage in mergers or consolidations and engage in transactions with affiliates. We could also be required to comply with specified financial ratios and terms. Our ability to recapitalize, incur additional debt that may contain covenants and take a number of other actions that are not limited by the terms of the Notes or the Indenture could have important consequences to holders of Notes, including:

- impairment of our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general purposes and our ability to satisfy our obligations with respect to the Notes;
- dedication of a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of cash flow to fund our operations, working capital and capital expenditures; and
- limitation of our flexibility to adjust to changing market conditions and ability to withstand competitive pressures, and increased vulnerability to a downturn in general economic conditions or our business that could impair our ability to carry out capital spending that is necessary or important to our business strategy.

In addition, we are not restricted from paying dividends to our shareholders or repurchasing Class A Common Shares by the terms of the Notes.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, we will be required to make an offer to repurchase the Notes. The fundamental change provisions, however, will not afford protection to holders of the Notes in the event of certain transactions. For example, certain leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change requiring us to make an offer to repurchase the Notes, even though any of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

Upon the occurrence of a fundamental change and in connection with your right to require us to repurchase the Notes, we may satisfy our obligations through the issuance of our Class A Common Shares.

You may not receive cash for Notes you hold in connection with our offer to repurchase the Notes upon the occurrence of a fundamental change or in connection with your right to require us to repurchase the Notes if we elect to satisfy our obligations by issuing to you Class A Common Shares. The number of Class A Common Shares we will issue will depend on the market price of our Class A Common Shares at the time. Because the value of the Class A Common Shares we may issue upon the occurrence of a fundamental change or in connection with your right to require us to repurchase the Notes will be determined prior to the settlement of the shares, you will bear the risk that the value of the Class A Common Shares may decrease between the time the price is set and settlement.

Upon conversion of the 2015 Notes, we will have the option to deliver cash in lieu of some or all the Class A Common Shares to be delivered upon conversion, the amount of cash to be delivered per 2015 Note being calculated on the basis of average prices over a specified period, and you may receive less proceeds than expected.

Upon conversion of the 2015 Notes, we will have the option to deliver cash in lieu of some or all the Class A Common Shares to be delivered upon conversion. As described below under "*Description of the Notes—Conversion rights*," the amount of cash to be delivered per 2015 Note will be equal to the number of Class A Common Shares in respect of which the cash payment is being made multiplied by the average of the Daily VWAP (as defined herein) price of the Class A Common Shares on the corresponding Bloomberg screen for the ten (10) trading days commencing one (1) day after (x) the date of our notice of election to deliver all or part of the conversion consideration in cash if we have not given notice of redemption or (y) the conversion date, in the case of conversion following notice of redemption specifying our intention to deliver cash upon conversion. Accordingly, upon conversion of a 2015 Note, holders might not receive any Class A Common Shares and, if the above-referred prices decline over the 10-day period, they might receive less proceeds than expected. Our failure to convert the 2015 Notes into cash or a combination of cash and Class A Common Shares upon exercise of a holder's conversion right in accordance with the provisions of the Indenture would constitute a default under the Indenture. In addition, a default under the Indenture could lead to a default under future agreements governing our indebtedness. If, due to a default, the repayment of related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay such indebtedness and the Notes.

The adjustment to the conversion rate for 2015 Notes converted in connection with a specified corporate transaction may not adequately compensate you for any lost value of your 2015 Notes as a result of such transaction.

If a specified corporate transaction that constitutes a fundamental change occurs, under certain circumstances we will increase the conversion rate by a number of additional Class A Common Shares for 2015 Notes converted in connection with such specified corporate transaction. The increase in the conversion rate will be determined based on the date on which the specified corporate transaction becomes effective and the price paid per Class A Common Share in such transaction, as described below under "*Description of the Notes—Conversion rate adjustments*." The adjustment to the conversion rate for 2015 Notes converted in connection with a specified corporate transaction may not adequately compensate you for any lost value of your 2015 Notes as a result of such transaction.

The conversion rate of the 2015 Notes may not be adjusted for all dilutive events.

The conversion rate of the 2015 Notes will be subject to adjustment for certain events, including, but not limited to, the issuance of dividends on our Class A Common Shares, the issuance of certain rights or warrants, subdivisions, combinations, distributions of share capital, indebtedness or assets, cash dividends and certain issuer tender or exchange offers as described under "*Description of the Notes*." However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer, an issuance of Class A Common Shares for cash or an issuance of options pursuant to our incentive plans, that may adversely affect the trading price of the 2015

Notes, if any, or the Class A Common Shares. An event that adversely affects the value of the 2015 Notes may occur, and that event may not result in an adjustment to the conversion rate.

The Notes may not have an active market and their price may be volatile. You may be unable to sell your Notes at the price you desire or at all.

There is no existing trading market for the Notes and we will not have any obligation to list the Notes at any time. As a result, there can be no assurance that a liquid market will develop or be maintained for the Notes, that you will be able to sell any of the Notes at a particular time (if at all) or that the prices you receive if or when you sell the Notes will be above their initial offering price. We do not intend to list the Notes on any national securities exchange or the TSX. In addition, the Modified Notes and the New Notes were issued under different CUSIP numbers and are not, and in the future will not be, fungible with each other or considered part of the same issue for federal income tax purposes. The Interest Notes are also a different series of securities than the Modified Notes and New Notes. As a result, the markets for the Modified Notes, the New Notes and the Interest Notes, if any, will be less liquid than if all such Notes were fungible with each one another.

The Notes may not be rated or may receive a lower rating than anticipated.

We do not intend to seek a rating on the Notes. However, if one or more rating agencies rates the Notes and assigns the Notes a rating lower than the rating expected by investors, or reduces their rating in the future, the market price of the Notes and our Class A Common Shares could be harmed.

If you hold 2015 Notes, you will not be entitled to any rights with respect to our Class A Common Shares, but you will be subject to all changes made with respect to our Class A Common Shares.

If you hold 2015 Notes, you will not be entitled to any rights with respect to our Class A Common Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on our Class A Common Shares, other than any extraordinary distribution that our board of directors designates as payable to the holders of the 2015 Notes), but if you subsequently convert your 2015 Notes into Class A Common Shares, you will be subject to all changes affecting the Class A Common Shares. You will have rights with respect to our Class A Common Shares only if and when we deliver Class A Common Shares to you upon conversion of your 2015 Notes and, to a limited extent, under the conversion rate adjustments applicable to the 2015 Notes. For example, in the event that an amendment is proposed to our charter documents requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of Class A Common Shares to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers or rights of our Class A Common Shares that result from such amendment.

In the future, we intend for the Notes to be held in book-entry form and, if the Notes are held in book-entry form, you will be required to rely on the procedures and the relevant clearing systems to exercise your rights and remedies.

The Notes are currently evidenced by physical certificates held in the names of the Selling Securityholders. In connection with the filing of the registration statement of which this prospectus forms a part, we intend to request that the Notes become eligible for deposit with DTC. If and when the Notes have been made eligible with DTC, the Notes will be exchanged for book-entry interests evidenced by one or more global notes deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected through, records maintained by DTC and its direct and indirect participants. Unless and until such book-entry interests in the Notes are again exchanged for physical notes, owners of the book-entry interests will

not be considered owners or holders of Notes. Instead, the common depository, or its nominee, will be the sole holder of the Notes. Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made to the paying agent, which will make payments to DTC. Thereafter, such payments will be credited to DTC participants' accounts that hold book-entry interests in the Notes in global form and will

thereafter be credited by such participants to indirect participants. Unlike holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC or, if applicable, a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

We may not be able to refinance the Notes if required or if we so desire.

We may need or desire to refinance all or a portion of the Notes or any other future indebtedness that we incur on or before the maturity of the Notes. There can be no assurance that we will be able to refinance any of our indebtedness or incur additional indebtedness necessary on commercially reasonable terms, if at all.

The ownership of our existing shareholders could be significantly diluted if our convertible notes are converted to Class A Common Shares or if we do not have the ability to repurchase our convertible notes in cash or pay cash upon their conversion.

In May 2007, the Company issued \$103.5 million aggregate principal amount of Original Notes that mature on June 15, 2022. During the fourth quarter of 2012, we consummated the restructuring of \$101.3 million of our then outstanding \$102.3 million aggregate principal amount of Original Notes. In connection with the 2012 restructuring, we paid approximately \$33.8 million in cash and issued approximately \$42.2 million in equity (representing 12,412,501 Class A Common Shares at \$3.40 per share), approximately \$25.3 million aggregate principal amount of 2014 Notes that mature on June 29, 2014 (convertible into Class A Common Shares under certain circumstances at \$4.00 per share) and a contingent value right distributed pro-rata to the participating note holders totaling 5.468% of any award or settlement of our Brisas arbitration.

On June 18, 2014, we consummated the Restructuring and New Notes Sale pursuant to the 2014 Restructuring Agreement. Pursuant to the 2014 Restructuring Agreement, we restructured almost all of our \$25.3 million aggregate principal amount of 2014 Notes and issued an additional \$12 million aggregate principal amount New Notes to certain of the Selling Securityholders. The approximately \$37.3 million aggregate principal amount of 2015 Notes mature on December 31, 2015 (convertible into Class A Common Shares under certain circumstances at \$3.50 per share). Any Interest Notes issued, or to be issued in the future, in connection with the payment of interest on the 2015 Notes and previously issued Interest Notes also mature on December 31, 2015 but are not convertible for our Class A Common Shares or any other security. As of July 17, 2014, we had outstanding approximately \$38.4 million aggregate principal amount of convertible notes of which approximately \$37.3 million aggregate principal amount are 2015 Notes and approximately \$1 million aggregate principal amount are Original Notes. If all of such convertible notes were converted to Class A Common Shares, an additional 10.8 million Class A Common Shares would be issued, thereby diluting the ownership of existing shareholders.

Risks Related to the Class A Common Shares

Failure to develop or further invest in our La Tortuga property (or acquire or invest in another mining project) could adversely affect future results including continued listing of our Class A Common Shares on the TSXV and/or the continued trading of our Class A Common Shares on the OTCQB.

We are required to maintain compliance with the TSXV listing rules. No assurances can be given that we will be able to maintain compliance with the TSXV Company Manual and, as a result, could be subject to loss of our listing and future delisting actions.

A delisting of our Class A Common Shares from the TSXV (or any inability to continue to trade on the OTCQB) could negatively impact us by: (i) reducing the liquidity and market price of our Class A Common Shares; (ii) reducing the number of investors willing to hold or acquire our Class A Common Shares, which could negatively

impact our ability to raise equity or other financing; (iii) limiting our ability to use a registration statement to offer and sell freely tradable securities, thereby preventing us from accessing the public capital markets; (iv) impairing our ability to provide equity incentives to our employees; and (v) impairing our ability to pay holders of our convertible notes Class A Common Shares in lieu of cash upon certain terms and conditions under the Indenture in connection with a fundamental change.

The price and liquidity of our Class A Common Shares may be volatile.

The market price of our Class A Common Shares may fluctuate based on a number of factors, some of which are beyond our control, including:

- the result of the Brisas arbitration and litigation proceedings;
- the restructuring and continued servicing of our notes, convertible notes or other obligations as they come due;
- economic and political developments in Venezuela;
- our operating performance and financial condition;
- continued listing of our Class A Common Shares on TSXV and trading on the OTCQB;
- the public's reaction to announcements or filings by ourselves or other companies;
- the price of gold and copper and other metal prices, as well as metal production volatility;
- the arrival or departure of key personnel; and
- acquisitions, strategic alliances or joint ventures involving us or other companies.

The effect of these and other factors on the market price of the Class A Common Shares has historically made our share price volatile and suggests that our share price will continue to be volatile in the future.

We may issue additional Class A Common Shares, debt instruments convertible into Class A Common Shares or other equity-based instruments to fund future operations.

We issued the 2015 Notes to restructure certain of our existing convertible notes and to provide us additional working capital. We cannot predict the size of any 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 Class A Common Shares. 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 and in certain circumstances could result in a change of control.

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

We have not declared or paid any dividends on our Class A 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 Class A Common Shares in the foreseeable future. Any return on an investment in our Class A Common Shares will

come from the appreciation, if any, in the value of the Class A Common Shares. The payment of future cash dividends, if any, will be reviewed periodically by our 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.

Risks Related to the Business

Operating losses are expected to continue.

We have no commercial production at this time and, as a result, we have not recorded revenue or cash flows from mining operations and have experienced losses from operations for each of the last 5 years, a trend we expect to continue unless and until the Brisas arbitration is resolved favorably to us and/or we acquire or invest in an alternative project and achieve commercial production.

We may not have sufficient liquidity to operate as a going concern if we are unable to successfully address our funding requirements.

Our consolidated financial statements are prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

As of March 31, 2014, the Company had financial resources comprised of cash, cash equivalents and marketable securities totaling approximately \$2.0 million and Brisas Project related equipment, which is being marketed for sale, with an estimated fair value of approximately \$19 million. The Company's short-term financial obligations included convertible notes of approximately \$25.3 million (face value) which as of March 31, 2014, matured in June 2014 and accounts payable and accrued expenses due in the normal course of approximately \$1.0 million. On June 18, 2014, we consummated the Restructuring and New Notes Sale pursuant to which we restructured almost all of our \$25.3 million aggregate principal amount of 2014 Notes and extended the maturity date of such notes to December 31, 2015 and issued an additional \$12 million aggregate principal amount New Notes to certain of the Selling Securityholders that also mature on December 31, 2015.

We are continuing our efforts to dispose of the remaining Brisas Project related assets, pursue a timely and successful completion of the arbitration claim before ICSID, including a possible settlement between the parties, and consider other debt and equity funding alternatives as may be required in the future.

Our future funding efforts may be adversely impacted by financial market conditions, industry conditions, regulatory approvals or other unknown or unpredictable conditions and, as a result, there can be no assurance that additional funding will be available or, if available, offered on acceptable terms.

Industry competition for new properties could limit our ability to grow in the future.

There is strong competition from other mining companies in connection with the acquisition of future properties considered to have commercial potential. Many of these companies have greater financial resources, operational experience and technical capabilities. As a result, we may be unable to acquire additional mining properties, thereby limiting future growth.

Failure to retain and attract key personnel could adversely affect us.

We are dependent upon the abilities and continued participation of key personnel to manage the Brisas arbitration and identify, acquire and develop new opportunities. Substantially all key management personnel have been employed by us for over 15 years. The loss of key employees (in particular those long time key management personnel possessing important historical knowledge related to the Brisas Project which is relevant to the Brisas arbitration) or an inability to obtain personnel necessary to execute our plan to acquire and develop a new project could have a material adverse effect on our future operations.

Risks inherent in the mining industry could adversely impact future operations.

Exploration for gold and other metals is speculative in nature, involves many risks and frequently is unsuccessful. As is customary in the industry, not all prospects will be positive or progress to later stages (e.g., the

feasibility and permitting stages), therefore, management can provide no assurances as to the future success of its efforts to acquire, explore, develop or operate another mining property. Exploration programs entail risks relating to location, metallurgical processes, governmental permits and regulatory approvals and the construction of mining and processing facilities. Development can take a number of years, requiring substantial expenditures and there is no assurance that we will have, or be able to raise, the required funds to engage in these activities or to meet our obligations with respect to the exploration properties in which we may acquire an interest. 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.

As a foreign private issuer in the United States, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer.

We are a foreign private issuer under the Exchange Act and, as a result, are exempt from certain rules under the Exchange Act. The rules we are exempt from 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 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 Class A Common Shares.

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

U.S. taxpayers should be aware that we have determined that we were a "passive foreign investment company" (a "PFIC") under Section 1297(a) of the U.S. Internal Revenue Code (the "Code") for the taxable year ended December 31, 2013, and that we may be a PFIC for all taxable years prior to the time the Company has income from production activities. We do not believe that any of the Company's subsidiaries were PFICs as to any shareholder of the Company for the taxable year ended December 31, 2013, however, due to the complexities of the PFIC determination detailed below, we cannot guarantee this belief and, as a result, we cannot determine that the Internal Revenue Service (the "IRS") would not take the position that certain subsidiaries are not PFICs. 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 prospectus. Accordingly, there can be no assurance that the Company and any of its subsidiaries will not be a PFIC for any taxable year.

For taxable years in which the Company is a PFIC, any gain recognized on the sale of the Company's Class A Common Shares and any "excess distributions" (as specifically defined) paid on the Company's Class A Common Shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the Class A 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 Class A 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. We will prepare and make the statement available to U.S. taxpayers, and will permit access to the information. As a possible 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 Class A 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 Class A Common Shares as of the close of such taxable year over (b) such U.S. taxpayer's adjusted tax basis in such Class A Common Shares.

There are material tax risks associated with holding and selling or otherwise disposing the Notes and Class A Common Shares.

There are material tax risks associated with holding and selling or otherwise disposing the Notes and Class A Common Shares, which are described in more detail under the heading "*—Taxation.*" Each prospective investor is urged to consult its own financial advisor, legal counsel or accountant regarding the tax consequences to him or her with respect to the ownership and disposition of the Notes and Class A Common Shares.

It may be difficult to bring certain actions or enforce judgments against the Company and/or its directors and executive officers.

Investors in the U.S. or in other jurisdictions outside of Canada may have difficulty bringing actions and enforcing judgments against us, our directors or executive officers 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 Yukon, Canada. Some of our directors and officers, and some of the experts named from time to time in our filings, are residents of Canada or otherwise reside outside of the U.S. and all or a substantial portion of their and our assets, may be 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 our 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.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of May 31, 2014 on (x) an actual basis and (y) on a as adjusted basis to give effect to (i) the Restructuring and New Notes Sale and (ii) the repayment at maturity on June 29, 2014 of the remaining \$4 thousand aggregate principal amount of 2014 Notes that remained outstanding following the consummation of the Restructuring and New Notes Sale. The amounts shown below are unaudited and represent management's estimate. The information in this table should be read in conjunction with and is qualified by reference to the consolidated financial statements and notes thereto and other financial information incorporated by reference into this prospectus.

	As at May 31, 2014	
	Actual	As Adjusted
	(U.S. dollars)	
Cash, cash equivalents and marketable securities	\$971,250	\$11,813,568
Borrowings:		
Short-term borrowing		
Long-term borrowing	25,965,148	32,050,712
Total borrowing	25,965,148	32,050,712
Equity:		
Common Shares and equity units	289,269,930	289,269,930
Equity component of convertible notes		5,774,306
Contributed Surplus	5,171,603	5,171,603
Warrants	543,915	543,915
Stock options	19,796,958	19,796,958
Accumulated deficit	(322,518,718)	(323,536,270)
Accumulated other comprehensive loss	(7,531)	(7,531)
Total shareholders' deficit	(7,743,843)	(2,987,089)
Total Capitalization	\$18,221,305	\$29,063,623
Shares issued and outstanding		
Class A Common Shares, without par value	75,559,911	75,559,911
Equity Units	500,236	500,236
	76,060,147	76,060,147

USE OF PROCEEDS

We will not receive proceeds from the resale of the Securities by the Selling Securityholders. The Selling Securityholders will pay all underwriting discounts, selling commissions, stock transfer taxes, and costs and expenses of legal and other professional advisors incurred by them in disposing of the Securities in secondary offerings. We will bear all other costs, fees and expenses incurred in effecting the registration of the Securities covered by this prospectus, including, without limitation, all registration and filing fees and fees and expenses of our counsel and accountants.

EXPENSES

We will incur the following expenses in connection with the registration of the Securities offered by the Selling Securityholders:

Legal Fees and Expenses	\$	30,000
Accounting Fees and Expenses	\$	7,500
SEC Registration Fee.....	\$	5,676
Printing Expenses	\$	1,000
TOTAL.....	\$	44,176

All amounts shown are estimates, except for the amount of the SEC registration fee. Any selling commissions, brokerage fees, applicable transfer taxes, and fees and disbursements of counsel for the Selling Securityholders are payable by the Selling Securityholders.

PRICE RANGE FOR CLASS A COMMON SHARES AND THE NOTES

Our Class A Common Shares are traded in Canada on the TSXV under the symbol "GRZ.V" and on the OTCQB under the symbol "GDRZF." Prior to February 1, 2012, our Class A Common Shares were traded on the Toronto Stock Exchange. Prior to March 15, 2013, our Class A Common Shares were traded in the United States on the NYSE MKT (previously named NYSE Amex) under the symbol "GRZ." The following table sets forth, for the fiscal year, quarter or month indicated, the high and low sales prices of our Class A Common Shares as reported on the TSXV, NYSE MKT or OTCQB, as applicable.

The annual high and low sales prices for our Class A Common Shares for the five most recent full financial years are:

<u>Year</u>	<u>TSXV/TSX</u>		<u>NYSE MKT</u>		<u>OTCQB</u>	
	High	Low	High	Low	High	Low
2013	Cdn \$ 3.78	Cdn \$ 2.50	\$ 3.48	\$ 2.48	\$ 3.60	\$ 2.42
2012	4.60	2.70	4.53	2.68	N/A	N/A
2011	3.10	1.61	3.14	1.66	N/A	N/A
2010	1.84	0.76	1.84	0.71	N/A	N/A
2009	1.79	0.51	1.73	0.48	N/A	N/A

The high and low sales prices for our Class A Common Shares each full financial quarter for the two most recent full financial years and any subsequent periods are:

<u>Quarter</u>	<u>TSXV/TSX</u>		<u>NYSE MKT/OTCQB⁽¹⁾</u>	
	High	Low	High	Low
2014				
Third Quarter (through July 17, 2014)	Cdn \$3.86	Cdn \$3.35	\$ 3.60	\$ 3.22
Second Quarter	3.80	3.00	3.52	2.72
First Quarter	4.31	3.30	3.94	2.99
2013				
Fourth Quarter	Cdn \$ 3.78	Cdn \$ 3.26	\$ 3.60	\$ 3.14
Third Quarter	3.66	2.95	3.50	2.75
Second Quarter	3.57	2.80	3.50	2.66
First Quarter (through March 14 for NYSE MKT)	3.35	2.50	3.48	2.42
2012				
Fourth Quarter	Cdn \$ 3.50	Cdn \$ 2.70	\$ 3.54	\$ 2.70
Third Quarter	4.19	2.75	4.11	2.88
Second Quarter	4.60	3.26	4.53	3.15
First Quarter	3.99	2.73	3.98	2.68

⁽¹⁾ The high and low for the second, third and fourth quarter of 2013 are the sale prices on the OTCQB, all previous quarters are the sale prices on the NYSE MKT.

The high and low sales prices for our Class A Common Shares for each month for the most recent six months are:

2014	<u>TSXV/TSX</u>		<u>OTCQB</u>	
	High	Low	High	Low
July (through July 17, 2014)	Cdn \$3.86	Cdn \$3.35	\$ 3.60	\$ 3.22
June	3.73	3.33	3.45	3.05
May	3.80	3.15	3.52	2.85
April	3.77	3.00	3.42	2.72
March	3.89	3.30	3.46	2.99
February	4.16	3.53	3.76	3.20
January	4.31	3.55	3.94	3.33

On July 17, 2014, the closing price for the Class A Common Shares was Cdn \$3.65 per share on the TSXV and \$3.40 per share on the OTCQB. As of March 31, 2014, there were a total of 75,559,911 Class A Common Shares and 500,236 Class B common shares issued and outstanding. The combined number of holders of Class A Common Shares and Class B common shares of record on July 17, 2014 was approximately 736. As of July 17, 2014, based on information received from our transfer agent and other service providers, we believe our common shares are owned beneficially by approximately 7,000 shareholders.

There is no established reporting system or trading market for trading in our Notes. However, quotations of prices for our Notes are available. To the extent that the Notes are traded, prices of the Notes may fluctuate widely depending on trading volume, the balance between buy and sell orders, prevailing interest rates, our operating results and the market for similar securities. As of July 17, 2014, there was approximately \$37.3 million aggregate principal amount of the 2015 Notes, which amount included approximately \$25.3 million aggregate principal amount of Modified Notes and \$12 million aggregate principal amount of New Notes, approximately \$0.1 million aggregate principal amount of the Interest Notes and approximately \$1 million aggregate principal amount of Original Notes outstanding. The Modified Notes and the New Notes were issued under different CUSIP numbers and are not, and in the future will not be, fungible with each other or considered part of the same issue for federal income tax purposes. The 2015 Notes and the Interest Notes are represented by physical notes held in the names of the Selling Securityholders as set forth below under "*Selling Securityholders*." DTC is the sole record holder of the Original Notes.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated.

	<u>March 31,</u>		<u>Year Ended December 31,</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Ratio of earnings to fixed charges (a):	(0.82)	(1.85)	(0.88)	(2.52)	(2.26)	(1.96)

(a) **Ratio of earnings to fixed charges is calculated by dividing earnings, as defined, by fixed charges, as defined. For this purpose, "earnings" means net income (loss) from operation plus income (loss) from equity investees, fixed charges and amortized capital interest less interest capitalized. For this purpose, "fixed charges" means interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and estimated interest within rental expense.**

DESCRIPTION OF CLASS A COMMON SHARES

We are authorized to issue an unlimited number of Class A Common Shares of which 75,559,911 Class A Common Shares were issued and outstanding at July 17, 2014. Shareholders are entitled to receive notice of and attend all meetings of shareholders with each Class A Common Share held entitling the holder to one vote on any resolution to be passed at such shareholder meetings. Shareholders are entitled to dividends if, as and when declared by our board of directors. Upon our liquidation, dissolution or winding up, shareholders are entitled to receive our remaining assets available for distribution to shareholders. The Class A Common Shares include associated Class A Common Share purchase rights under our Shareholder Rights Plan Agreement, as amended and restated. Those rights are described under "Item 5 – Continuation of and Amendment to the Shareholder Rights Plan Agreement" in the Proxy Statement/Information Circular attached to our Form 6-K furnished June 1, 2012, which is incorporated by reference into this prospectus.

In February 1999, Gold Reserve Corporation became our subsidiary. Generally, each shareholder exchanged its Gold Reserve Corporation shares for an equal number of our Class A Common Shares. For tax reasons, certain U.S. holders elected to receive equity units in lieu of our Class A Common Shares. An "equity unit" is comprised of one Gold Reserve Inc. Class B common share and one Gold Reserve Corporation Class B common share, is substantially equivalent to a Class A Common Share and is generally immediately convertible into a Class A Common Share. Unless otherwise noted, general references to common shares of the Company include Class A Common Shares and equity units as a group. At July 17, 2014, there were 500,236 equity units outstanding.

Adjustments will be made in the event of certain corporate transactions, such as, but not limited to, a subdivision or consolidation of the common shares or reorganization, reclassification of the capital, or merger or amalgamation with any other company.

DESCRIPTION OF THE NOTES

The 2015 Notes and the outstanding Interest Notes were issued, and Interest Notes issued in the future will be issued, under the second supplemental indenture, dated as of June 18, 2014 (the "Second Supplemental Indenture"), among us, as issuer, U.S. Bank National Association, as trustee (the "Trustee"), and Computershare Trust Company of Canada, as Co-Trustee (the "Co-Trustee"). The second supplemental indenture amends the indenture, dated as of May 18, 2007 (the "Original Indenture"), among us, the Trustee, as successor trustee to The Bank of New York Mellon (f/k/a The Bank of New York) and the Co-Trustee, as successor Co-Trustee to BNY Trust Company of Canada, as previously amended and supplemented by the first supplemental indenture, dated as of December 4, 2012 (together with the Original Indenture and the Second Supplemental Indenture, the "Indenture"), among us, the Trustee and the Co-Trustee.

The following description is a summary of the material provisions of the Notes and the Indenture and does not purport to be complete, and this summary is qualified in its entirety by the Indenture and the Notes, including the definition of certain terms used in the Indenture. We urge you to read the Indenture and the Notes because the Indenture and the Notes, and not this description, defines your rights as a holder of the Notes. You should refer to all of the provisions of the Indenture, including the definitions of certain terms used in those agreements. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. The indenture, including the forms of 2015 Note and Interest Note contained therein, is specifically incorporated herein by reference. You may request a copy of the Indenture from us.

As used in this "*Description of the Notes*" section, references to "we," "our," "us" or "the Company" refer solely to Gold Reserve Inc. and not to our subsidiaries.

General

The Notes are unsecured obligations and rank (1) subordinate in right of payment to future unsubordinated indebtedness for the construction and development of the Brisas Project, and will be effectively subordinate to the extent of the collateral securing such indebtedness, (2) subordinate to senior secured bank indebtedness in right of payment, and will be effectively subordinate to the extent of the collateral securing such indebtedness, (3) subordinate in right of payment to any guarantee of the indebtedness described in (1) or (2) by us or any of our subsidiaries for the period that the guarantee is in effect, (4) equal in right of payment to any of our other existing and future unsecured and unsubordinated indebtedness, and (5) senior in right of payment to all of our future subordinated debt; provided, that any indebtedness issued after the date of the Second Supplemental Indenture must be incurred in accordance with the terms of the Indenture, including the restrictions included in the Second Supplemental Indenture. Subject to the modifications set forth in the Second Supplemental Indenture, the Modified Notes represent a corresponding principal amount of indebtedness under the 2014 Notes. However, the Notes are effectively subordinated to all future secured debt to the extent of the security on such other indebtedness and to all existing and future obligations of our subsidiaries. As of July 17, 2014, we had approximately \$38.5 million aggregate principal amount of outstanding long-term indebtedness and our subsidiaries had no outstanding indebtedness, other than intercompany indebtedness and trade payables. See "*Risk Factors*."

The 2015 Notes are convertible into our Class A Common Shares, as described more fully under "*—Conversion rights*" below. The Interest Notes are not convertible into our Class A Common Shares or any other security.

The Notes are issued only in denominations of \$1,000 and integral multiples of \$1.00 above that amount. The Notes mature on December 31, 2015, unless earlier converted (if applicable), redeemed or repurchased. The Notes and any other securities previously issued under the Indenture will be treated as a single class for all purposes of the Indenture, including waivers, amendments and redemptions; provided, that notwithstanding the foregoing, in any instance in which the Notes are treated or affected differently from the other securities, whether directly or indirectly, including

but not limited to waivers, amendments and redemptions, the Notes shall be treated as a

separate class for purposes of the Indenture. We may also from time to time repurchase Notes in open market purchases, if in the future we list the Notes for trading on a national securities exchange, or negotiated transactions without prior notice to holders, subject to the limitations set forth in the Indenture.

Neither we nor any of our subsidiaries are subject to any financial covenants under the Indenture. In addition, except as set forth below under "*Other negative covenants*," neither we nor any of our subsidiaries are restricted under the Indenture from paying dividends, incurring debt, granting security or issuing or repurchasing our securities, entering into transactions with our affiliates or paying senior, other equally ranking or subordinated indebtedness prior to paying our obligations under the Notes.

The holders of the Notes are not afforded protection under the Indenture in the event of a leveraged transaction or a change in control of us except to the extent described under "*—Offer to purchase upon a fundamental change*," and "*—Conversion rate adjustments*."

The Notes are currently represented by physical certificates held in the names of the Selling Securityholders. In connection with the filing of the registration statement of which this prospectus forms a part, we intend to request that the Notes become eligible for deposit with DTC. If and when the Notes have been made eligible with DTC, the Notes will be evidenced by one or more global notes deposited with a custodian for and registered in the name of a nominee of DTC. There can be no assurance that we will be successful in our request that the Notes are DTC eligible. There is no service charge for registration of transfer or exchange of the Notes. We may, however, require holders to pay a sum to cover any tax or other governmental charge payable in connection with certain transfers or exchanges.

Payments on the Notes; paying agent and registrar

We pay principal of physical notes at the office or agency designated by us in the Borough of Manhattan, The City of New York. We have designated the corporate trust office of U.S. Bank National Association, the Trustee under the Indenture, at 100 Wall Street, Suite 1600, New York, New York 10005 as our paying agent and registrar and its office in New York, New York as a place where Notes may be presented for payment or for registration of transfer. We may, however, change the paying agent or registrar without prior notice to the holders of the Notes, and we may act as paying agent or registrar. If and when the Notes are eligible for deposit with DTC and are held in global form registered in the name of or held by DTC or its nominee, we intend to pay principal of Notes in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of such global note. Interest will be payable on the Notes in Interest Notes. Not later than three (3) business days prior to the relevant interest payment date, we will deliver to the Trustee an order to authenticate and deliver such Interest Notes. We intend that interest on the Notes will be payable (x) with respect to Notes represented by a global note, by issuing and having authenticated a new global note representing the Interest Note in an amount equal to the amount of interest payable for the applicable interest period (each global note to be rounded up to the nearest \$1.00) and (y) with respect to Notes represented by physical notes, by issuing and having authenticated Interest Notes represented by physical notes in an aggregate principal amount equal to the amount of interest payable for the applicable period (each physical note to be rounded up to the nearest \$1.00), and the Trustee will, at our request, authenticate and deliver such physical notes for original issuance to the holders on the relevant regular record date, as shown in the security register. If the Notes are eligible for DTC, then following the issuance of a new global note representing the Interest Notes as a result of an interest payment, the global note will bear interest from and after the relevant date of issue. Any Interest Notes issued as physical notes will be dated as of the applicable interest payment date and will bear interest from and after such date.

Interest

The notes bear interest at a rate of 11% per annum. Interest will accrue and be capitalized quarterly and be payable on June 30, September 30, December 31 and March 31.

Interest is paid to the person in whose name a Note is registered at the close of business on June 15, September 15, December 15 and March 15, as the case may be and whether or not a business day, immediately preceding the relevant interest payment date. Interest on the Notes is computed on the basis of a 360-day year composed of twelve (12) 30-day months.

Conversion rights

Holder of the 2015 Notes may convert any 2015 Notes or portions of the 2015 Notes, in whole or in part, initially at a conversion rate of 285.71 Class A Common Shares per \$1,000 principal amount of 2015 Notes (equivalent to a conversion price of \$3.50 per share) at any time prior to the close of business on the business day immediately preceding the final maturity date of the 2015 Notes, subject to prior repurchase of the 2015 Notes. The Interest Notes are not convertible into our Class A Common Shares or any other security.

Upon conversion of a 2015 Note, we will have the option to deliver Class A Common Shares, cash or a combination of cash and Class A Common Shares for the 2015 Notes surrendered as set forth below. The Trustee will initially act as conversion agent. The conversion rate and the applicable conversion price in effect at any given time are referred to as the "applicable conversion rate" and the "applicable conversion price," respectively, and will be subject to adjustment as described below. A holder may convert fewer than all of such holder's 2015 Notes so long as the 2015 Notes converted have a principal amount of \$1,000 or an integral multiple of \$1.00 in excess thereof.

We will have the option to deliver cash in lieu of some or all of the Class A Common Shares to be delivered upon conversion of the 2015 Notes. We will give notice of our election to deliver part or all of the conversion consideration in cash to the holder converting the 2015 Notes within two (2) business days of our receipt of the holder's notice of conversion. The amount of cash to be delivered per 2015 Note will be equal to the number of Class A Common Shares in respect of which the cash payment is being made multiplied by the average of the Daily VWAP prices of the Class A Common Shares for the ten (10) trading days commencing one (1) day after (a) the date of our notice of election to deliver all or part of the conversion consideration in cash if we have not given notice of redemption or (b) the conversion date, in the case of conversion following notice of redemption specifying our intention to deliver cash upon conversion. "Daily VWAP" means the per share volume-weighted average price as displayed under the heading "Bloomberg VWAP" on Bloomberg page "GRZ"<equity>"VAP" in respect of the period from 9:30 am to 4:00 pm (New York City time) on such trading day (or if such volume-weighted average price is unavailable, the market value of one Class A Common Share on such trading day on the TSXV or otherwise as our board of directors determines in good faith using a volume-weighted method); provided that after the consummation of a fundamental change in which the consideration is comprised entirely of cash, "Daily VWAP" means the cash price per Class A Common Share received by holders of our Class A Common Shares on such fundamental change.

If we elect to deliver cash in lieu of some or all of the Class A Common Shares issuable upon conversion of the 2015 Notes, we will make the payment, including delivery of the Class A Common Shares, through the conversion agent, to holders surrendering 2015 Notes no later than the fourteenth (14th) business day following the conversion date. Otherwise, we will deliver the Class A Common Shares, together with any cash payment for fractional shares, as described below, through the conversion agent no later than the fifth (5th) business day following the conversion date.

We may not deliver cash in lieu of any Class A Common Shares issuable upon a conversion date (other than in lieu of fractional shares) if there has occurred and is continuing an event of default under the Indenture, other than an event of default that is cured by the payment of the conversion consideration.

If we call 2015 Notes for redemption, a holder of 2015 Notes may convert the 2015 Notes only until the close of business on the business day immediately preceding the redemption date unless we fail to pay the redemption price. If a holder of 2015 Notes has submitted the 2015 Notes for purchase upon a fundamental change,

a holder of 2015 Notes may convert the 2015 Notes only if that holder withdraws the purchase election made by that holder.

Upon conversion, you will not receive any separate payment for accrued and unpaid interest and additional amounts (as defined herein), if any, unless such conversion occurs between a regular record date and the interest payment date to which it relates. We will not issue fractional Class A Common Shares upon conversion of 2015 Notes. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price of the Class A Common Shares on the trading day prior to the conversion date.

Our delivery to you of Class A Common Shares, cash, or a combination of cash and Class A Common Shares, as applicable, together with any cash payment for any fractional share, into which a 2015 Note is convertible, will be deemed to satisfy our obligation to pay:

- the principal amount of the 2015 Note; and
- accrued and unpaid interest and additional amounts, if any, to, but not including, the conversion date.

As a result, accrued and unpaid interest and additional amounts, if any, to, but not including, the conversion date will be deemed to be paid in full rather than cancelled, extinguished or forfeited.

Notwithstanding the preceding paragraph, if Notes are converted after 5:00 p.m., New York City time, on a regular record date for the payment of interest, holders of such notes at 5:00 p.m., New York City time, on such record date will receive the interest and additional amounts, if any, payable on such 2015 Notes on the corresponding interest payment date notwithstanding the conversion. 2015 Notes, upon surrender for conversion during the period from 5:00 p.m., New York City time, on any regular record date to 9:00 a.m. New York City time, on the immediately following interest payment date must be accompanied by (i) payment of an amount equal to the principal amount of Interest Notes and additional amounts that the holder is to receive on the 2015 Notes or (ii) the written election of the holder to offset the payment otherwise required pursuant to clause (i) against the principal amount of Interest Notes and additional amounts that the Holder is to receive on the 2015 Notes. However, no such payment need be made:

- if we have specified a redemption date that is after a record date and on or prior to the corresponding interest payment date;
- if we have specified a fundamental change purchase date that is after a record date and on or prior to the corresponding interest payment date; or
- to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such 2015 Note.

If a holder converts 2015 Notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of any of our Class A Common Shares upon the conversion, unless the tax is due because the holder requests any shares to be issued in a name other than the holder's name, in which case the holder will pay that tax.

Conversion upon specified corporate transactions

If we are a party to a consolidation, amalgamation, merger, binding share exchange, statutory arrangement, sale of all or substantially all of our assets or other combination, in each case pursuant to which our Class A Common Shares are converted into cash, securities or other property, then at the effective time of the transaction a holder's right to convert a 2015 Note into our Class A Common Shares and cash will be changed into a right to convert it into the kind and amount of cash, securities and other property which such holder would have received if such holder had converted

their 2015 Notes into our Class A Common Shares immediately prior to the transaction

(the "reference property"). If the transaction causes our Class A Common Shares to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of shareholder election), the reference property into which the 2015 Notes will be convertible will be deemed to be the weighted average of the types and amounts of consideration received by the holders of our Class A Common Shares that affirmatively make such an election. We have agreed in the Indenture not to become a party to any such transaction unless its terms are consistent with the foregoing.

Notwithstanding the preceding paragraph, if holders of 2015 Notes would otherwise be entitled to receive, upon conversion of the 2015 Notes, any property (including cash) or securities that would not constitute "prescribed securities" for the purposes of clause 212(1)(b)(vii)(E) of the Income Tax Act (Canada) (referred to herein as "ineligible consideration"), such holders shall not be entitled to receive such ineligible consideration, but we or the successor or acquirer, as the case may be, shall have the right (at the sole option of us or the successor or acquirer, as the case may be) to deliver either such ineligible consideration or "prescribed securities" for the purposes of clause 212(1)(b)(vii)(E) of the Income Tax Act (Canada) with a market value equal to the market value of such ineligible consideration. In general, prescribed securities would include our Class A Common Shares and other shares which are not redeemable by the holder within five (5) years of the date of issuance of the 2015 Notes. Because of this, certain transactions may result in the 2015 Notes being convertible into prescribed securities that are highly illiquid. This could have a material adverse effect on the value of the 2015 Notes. We agree to provide notice to the holders of notes at least thirty (30) days prior to the effective date of such transaction in writing and by release to a business newswire stating the consideration into which the 2015 Notes will be convertible after the effective date of such transaction. After such notice, we or the successor or acquirer, as the case may be, may not change the consideration to be delivered upon conversion of the 2015 Note except in accordance with any other provision of the Indenture.

If the transaction also constitutes a fundamental change, we will be required, subject to certain conditions, to offer to purchase for cash all or a portion of your 2015 Notes as described under "*—Offer to purchase upon a fundamental change.*"

Conversion procedures

The initial conversion rate for the 2015 Notes is 285.71 Class A Common Shares per \$1,000 principal amount of 2015 Notes, subject to adjustment as described below.

To convert the 2015 Notes into Class A Common Shares a holder of 2015 Notes must do the following (or comply with DTC procedures for doing so in respect of its beneficial interest in 2015 Notes evidenced by a global note) upon three (3) days prior written notice to us:

- complete and manually sign the conversion notice on the back of the 2015 Note or facsimile of the conversion notice and deliver this notice to the conversion agent;
- surrender the 2015 Note to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents; and
- if required, pay all transfer or similar taxes.

The date a holder of 2015 Notes complies with these requirements is the conversion date under the Indenture.

Conversion rate adjustments

We will adjust the conversion rate if any of the following events occurs, except that we will not make any adjustment if holders of 2015 Notes may participate, as a result of holding the 2015 Notes, in the transactions described without having to convert their 2015 Notes.

(a) If we issue Class A Common Shares as a dividend or distribution on our Class A Common Shares, or if we subdivide or combine our Class A Common Shares, the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{OS^1}{OS_0}$$

where,

CR_0 = the conversion rate in effect immediately prior to such event

CR^1 = the conversion rate in effect immediately after such event

OS_0 = the number of our Class A Common Shares outstanding immediately prior to such event

OS^1 = the number of our Class A Common Shares outstanding immediately after such event

(b) If we issue to all or substantially all holders of Class A Common Shares certain rights or warrants to purchase our Class A Common Shares (or securities convertible or exchangeable or exercisable for Class A Common Shares) at a price per share (or having a conversion, exchange or exercise price per share) less than the closing sale price of our Class A Common Shares on the record date for shareholders entitled to receive such rights and warrants, which rights or warrants are exercisable for not more than sixty (60) days, the conversion rate will be adjusted based on the following formula (provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration):

$$CR^1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

CR_0 = the conversion rate in effect immediately prior to such event

CR^1 = the conversion rate in effect immediately after such event

OS_0 = the number of our Class A Common Shares outstanding on the close of business on the next business day following such record date

X = the total number of our Class A Common Shares issuable pursuant to such rights

Y = the number of our Class A Common Shares equal to the aggregate offering price that the total number of shares so offered would purchase at such closing sale price of our Class A Common Shares on the record date of such issuance determined by multiplying such total number of shares so offered by the exercise price of such rights or warrants and dividing the product so obtained by such closing sale price.

(c) If we distribute to all or substantially all holders of our Class A Common Shares, Class A Common Shares, evidences of indebtedness or assets, including securities but excluding:

- rights or warrants specified above;
- dividends or distributions specified above; and
- dividends or distributions specified in (d) below;

then the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

CR_0 = the conversion rate in effect immediately prior to such distribution

CR_1 = the conversion rate in effect immediately after such distribution

SP_0 = the current market price (as defined below) of our Class A Common Shares on such record date for such distribution

FMV = the fair market value (as determined by our board of directors) of the Class A Common Shares, evidences of indebtedness, assets or property distributed with respect to each outstanding common share on the record date for such distribution

With respect to an adjustment pursuant to this clause (c) where there has been a payment of a dividend or other distribution on our Class A Common Shares or shares of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit, which we refer to as a "spin-off," the conversion rate in effect immediately before 5:00 p.m., New York City time, on the effective date fixed for determination of shareholders entitled to receive the distribution will be increased based on the following formula:

$$CR^1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

CR_0 = the conversion rate in effect immediately prior to such distribution

CR_1 = the conversion rate in effect immediately after such distribution

FMV_0 = the average of the closing sale prices of the Class A Common Shares or similar equity interest distributed to holders of our Class A Common Shares applicable to one Class A Common Share over the ten (10) consecutive trading-day period commencing on and including the fifth (5th) trading day after the date on which "ex-dividend trading" commences for such distribution on the NYSE MKT or such other national or regional exchange or market on which the securities are then listed or quoted

MP_0 = the average of the closing sale prices of our Class A Common Shares over the ten consecutive trading-day period commencing on and including the fifth (5th) trading day after the date on which "ex-dividend trading" commences for such distribution on the NYSE MKT or such other national or regional exchange or market on which the securities are then listed or quoted

The adjustment to the conversion rate under the preceding paragraph will occur on the fourteenth (14th) trading day after the date on which "ex-dividend trading" commences for such distribution on the NYSE MKT or such other national or regional exchange or market on which the securities are then listed or quoted.

(d) If any cash dividend or other distribution is made to all or substantially all holders of our Class A Common Shares, the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{SP_0}{SP_0} \quad C$$

where,

CR_0 = the conversion rate in effect on the record date for such distribution

CR^1 = the conversion rate in effect immediately after the record date for such distribution

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SP_0 = the current market price of one (1) of our Class A Common Shares on the record date for such distribution

C = the amount in cash per share we distribute to holders of our Class A Common Shares

"Current market price" means the average of the daily closing sale prices per Class A Common Share for the ten (10) consecutive trading days ending on the earlier of the date of determination and the day before the "ex"

date with respect to the distribution requiring such computation. As used in the definition of current market price, the term "ex" date, when used with respect to any distribution, means the first date on which the Class A Common Share trades, regular way, on the relevant exchange or in the relevant market from which the closing sale price was obtained without the right to receive such distribution.

(e) If we or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our Class A Common Shares to the extent that the cash and value of any other consideration included in the payment per Class A Common Share exceeds the last reported sale price per Class A Common Share on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the conversion rate will be increased based on the following formula:

$$CR^1 = CR_0 \times \frac{AC + (SP^1 \times OS^1)}{OS_0 \times SP^1}$$

where,

CR_0 = the conversion rate in effect on the date such tender or exchange offer expires

CR^1 = the conversion rate in effect on the day next succeeding the date such tender or exchange offer expires

AC = the fair market value (as determined by our board of directors) of the aggregate consideration paid or payable for shares purchased in such tender or exchange offer

OS_0 = the number of our Class A Common Shares outstanding on the trading day immediately preceding the date such tender or exchange offer is announced

OS^1 = the number of our Class A Common Shares outstanding less any shares purchased in the tender or exchange offer at the time such tender or exchange offer expires

SP^1 = the average of the last reported sale prices of the common shares over the ten (10) consecutive trading day period commencing on the trading day next succeeding the date such tender or exchange offer expires

The adjustment to the conversion rate under the preceding paragraph will occur on the tenth (10th) trading day next succeeding the date such tender or exchange offer expires.

To the extent that we have a rights plan in effect upon conversion of the 2015 Notes into Class A Common Shares, a holder of 2015 Notes will receive, in addition to the Class A Common Shares, the rights under the rights plan unless the rights have separated from the Class A Common Shares at the time of conversion, in which case the conversion rate will be adjusted as if we distributed to all holders of our Class A Common Shares, Class A Common Shares, evidences of indebtedness or assets as described above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

In the event of:

- any reclassification of our Class A Common Shares;
- a consolidation, merger or combination involving us; or
- a sale or conveyance to another person or entity of all or substantially all of our property and assets;

in which holders of our Class A Common Shares would be entitled to receive shares, other securities, other property, assets or cash for their Class A Common Shares, upon conversion of the 2015 Notes a holder thereof will be entitled to receive the same type of consideration which it would have been entitled to receive if it had converted the 2015 Notes into our Class A Common Shares immediately prior to any of these events (provided such consideration is not "ineligible consideration" as described in "*—Conversion upon specified corporate transactions*").

A holder of 2015 Notes may in certain situations be deemed to have received a distribution subject to United States federal income tax as a dividend in the event of any taxable distribution to holders of Class A Common Shares or in certain other situations requiring a conversion rate adjustment. See "*Taxation*."

We may, from time to time, increase the conversion rate for a period of at least twenty (20) days if our board of directors has made a determination that this increase would be in our best interests, subject to the receipt of any required regulatory approvals. Any such determination by our board will be conclusive. Thereafter, the conversion rate will return to the level prior to such adjustment. In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of Class A Common Shares resulting from any share or rights distribution. See "*Taxation*."

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1% in the conversion rate. However, we will carry forward any adjustments that are less than 1% of the conversion rate. Except as described above in this section, we will not adjust the conversion rate for any issuance of our Class A Common Shares or convertible or exchangeable securities or rights to purchase our Class A Common Shares or convertible or exchangeable securities.

Adjustments of average prices

Whenever any provision of the Indenture requires us to calculate an average of last reported prices or Daily VWAP over a span of multiple days, we will make appropriate adjustments to account for any adjustment to the conversion rate that becomes effective, or any event requiring an adjustment to the conversion rate where the ex date of the event occurs, at any time during the period from which the average is to be calculated.

Optional redemption

No sinking fund will be provided for the Notes, which means that the Indenture will not require us to redeem a portion of the Notes periodically.

We may redeem, at our option, all or part of the 2015 Notes upon twenty (20) days' notice to the holders, for Class A Common Shares at the conversion price plus cash for any accrued and unpaid interest if the closing sale price of our Class A Common Shares is equal to or greater than 200% of the conversion price for at least twenty (20) trading days in the period of thirty (30) consecutive trading days.

If less than all of the outstanding 2015 Notes are to be redeemed, the Trustee shall select the 2015 Notes to be redeemed in principal amounts at maturity of \$1,000 or integral multiples thereof. In this case the Trustee may select the 2015 Notes by lot, pro rata or by any other method the Trustee considers fair and appropriate or in any manner required by the depository.

If a portion of a holder's 2015 Notes is selected for partial redemption and the holder converts a portion of the 2015 Notes, the converted portion shall be deemed to be the portion selected for redemption.

In the event of any redemption of the 2015 Notes in part, we will not be required to:

- issue, register the transfer of or exchange any 2015 Note during a period beginning at the opening of business fifteen (15) days before any selection of 2015 Notes for redemption and ending at the close of business on the earliest date on which the relevant notice of redemption is deemed to have been given to all holders of 2015 Notes to be so redeemed, or

- register the transfer of or exchange any 2015 Note so selected for redemption, in whole or in part, except the unredeemed portion of any 2015 Note being redeemed in part.

Mandatory redemption

We have a mandatory obligation to redeem the 2015 Notes then outstanding, together with the Interest Notes then outstanding, in whole or in part, for an amount of cash equal to 120% of the outstanding principal amount of the 2015 Notes and Interest Notes, taken together, plus accrued and unpaid interest, upon (a) the issuance of a final Arbitration Award, with respect to which enforcement has not been stayed and no annulment proceeding is pending, or (b) our receipt of Proceeds (as defined below) from a Mining Data Sale (as defined below) (the occurrence of an event described in (a) or (b) may be referred to as a "Redemption Trigger"), in each case, notwithstanding any other notice provision herein, upon twenty (20) days' notice to the holders (which notice shall be provided within ten (10) days of the issuance of a final Arbitration Award or our receipt of any such Proceeds, as applicable); provided, however, that following the issuance of a final Arbitration Award, we shall not be obligated to effect any such redemption unless we receive cash proceeds in excess of \$20,000,000, net of (i) taxes and (ii) \$13,500,000 to fund professional fees and expenses and accrued and unpaid prospective operating expenses (such net amount, collectively the "Net Cash Proceeds"), in which case we shall give notice to the holders of the Notes within two (2) business days after receipt of such funds of our intent to redeem and shall promptly, and in any event within five (5) business days, redeem the 2015 Notes and the Interest Notes to the extent of such Net Cash Proceeds received in excess of \$20,000,000, subject to the following sentence. In respect of any given receipt of Net Cash Proceeds in excess of \$20,000,000, in the case of the issuance of a final Arbitration Award, or Proceeds, in the case of a Mining Data Sale, by us, our redemption obligations shall be limited to the amount of the Net Cash Proceeds in excess of \$20,000,000, in the case of the issuance of a final Arbitration Award, or Proceeds, in the case of a Mining Data Sale, received us, and if the amount of Net Cash Proceeds, in the case of the issuance of a final Arbitration Award, or proceeds, in the case of a Mining Data Sale, received is insufficient to redeem all of the 2015 Notes and the Interest Notes then outstanding, we shall redeem a pro rata portion of each holder's applicable securities determined on the basis of the principal amount of the applicable securities held by each holder as among all outstanding 2015 Notes and Interest Notes, taken together, held by all holders (provided, further, that any subsequent receipt of additional Net Cash Proceeds in excess of \$20,000,000, in the case of the issuance of a final Arbitration Award, or Proceeds, in the case of a Mining Data Sale, shall be applied in a similar manner until such time as the redemption obligations have been satisfied in full). Notwithstanding the foregoing or anything to the contrary herein, (i) within five (5) business days of a Redemption Trigger described in clause (a) above, we shall issue a promissory note to each holder payable in the amounts due to such holder upon receipt of Net Cash Proceeds by the Company as contemplated by this paragraph, which promissory note shall be in form and substance reasonably satisfactory to holders holding at least a majority of the 2015 Notes and Interest Notes, taken together, and the Company, including with respect to covenants and other relevant terms from the Indenture as applicable, and which shall mature on the earlier of (x) five (5) business days following the our receipt of proceeds contemplated by the applicable Arbitration Award and (y) the stated maturity of the Notes; and (ii) in the case of a Redemption Trigger described in clause (a) above, at any time following receipt of notice from us as provided herein and prior to the receipt by a holder of the applicable redemption amount, such holder may notify the Company that it elects to not have its 2015 Notes and Interest Notes (or any portion thereof) so redeemed, in which case the applicable securities of such holder shall not be redeemed and the amounts that would have otherwise been payable to such holder shall be available for distribution to the holders of the securities which are being redeemed in accordance herewith if such holders would not otherwise receive payment of the entire redemption price.

As used in this prospectus:

"Arbitration Award" shall mean any settlement, award, or other payment made or other consideration transferred to us or any of our affiliates arising out of, in connection with or with respect to the Brisas arbitration, including, but not limited to the Proceeds received by us or our affiliates from a sale, pledge, transfer or other disposition, directly or indirectly, of our rights with respect to the Brisas arbitration.

"Mining Data" shall mean the mine data base relating to the Brisas Project which consists of over 900 core drill holes with assay certificates with a calculated proven and probable 43-101 compliant audited ore reserve.

"Mining Data Sale" shall mean the sale, pledge, transfer or other disposition, directly or indirectly, of all or any portion of the Mining Data.

"Proceeds" shall mean the gross amount of all consideration, whether cash, securities, commodities, bonds or other non-cash consideration, received by us arising out of, in connection with or with respect to an Arbitration Award or Mining Data Sale, as applicable; provided that, for the purposes of calculating Proceeds, any consideration received by any affiliate of ours in connection with an Arbitration Award or Mining Data Sale, as the case may be, shall be deemed to have been received by us.

Redemption for changes in Canadian tax law

We may redeem all but not part of the Notes if we have or would become obligated to pay to the holder of any Note "additional amounts" (which are more than a de minimis amount) as a result of any change from the date of this prospectus in the laws or any regulations of Canada or any Canadian political subdivision or taxing authority, or any change or amendment occurring after June 18, 2014 in an interpretation or application of such laws or regulations by any legislative body, court, governmental agency, taxing authority or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory or administrative determination); provided we cannot avoid these obligations by taking reasonable measures available to us and that we deliver to the Trustee an opinion of legal counsel specializing in taxation and an officers' certificate attesting to such change and obligation to pay additional amounts. The term "additional amounts" is defined under "*—Additional amounts.*" This redemption would be at an amount equal to (i) 100% of the principal amount of the Notes, plus (ii) accrued and unpaid interest (including additional amounts, if any), to, but excluding, the redemption date plus (iii) an additional 20% of the principal amount of the Notes, but without reduction for applicable Canadian taxes (as defined below) (except in respect of certain excluded holders (as defined below)). We will give holders of Notes not less than thirty (30) days' nor more than sixty (60) days' notice of this redemption, except that (i) we will not give notice of redemption earlier than 60 days prior to the earliest date on or from which we would be obligated to pay any such additional amounts, and (ii) at the time we give the notice, the circumstances creating our obligation to pay such additional amounts remain in effect.

Upon receiving such notice of redemption, each holder who does not wish to have us redeem its Notes will have the right to elect to:

- (a) convert its Notes (other than in the case of the Interest Notes); or
- (b) not have its Notes redeemed, provided that no additional amounts will be payable on any payment of interest or principal with respect to the Notes after such redemption date. All future payments will be subject to the deduction or withholding of any Canadian taxes required by law to be deducted or withheld.

Where no election is made, the holder will have its Notes redeemed without any further action. The holder must deliver to the paying agent a written notice of election so as to be received by the paying agent no later than the close of business on a business day at least five (5) business days prior to the redemption date.

A holder may withdraw any notice of election by delivering to the paying agent a written notice of withdrawal prior to the close of business on the business day prior to the redemption date.

Offer to purchase upon a fundamental change

In the event of a fundamental change, subject to the terms and conditions of the Indenture, we shall be required to offer to purchase all of the outstanding 2015 Notes, together with the Interest Notes then outstanding (a "purchase offer"), on the date (the "purchase date") that is thirty (30) business days after the date of such offer, at a purchase

price equal to (i) the principal amount of the 2015 Notes and the Interest Notes to be purchased, plus (ii)

accrued but unpaid interest, including additional amounts, if any, up to, but excluding, the purchase date plus (iii) if a Redemption Trigger has occurred prior to the date of the applicable fundamental change, but we have not yet made payments to the holders as provided under " *Mandatory redemption*," an additional 20% of the principal amount of the 2015 Notes; provided, that the amounts set forth in clause (iii) shall not be payable to any holder of the 2015 Notes or the Interest Notes with respect to any fundamental change arising out of or in connection with any actions of such holder (including, for the avoidance of doubt, participating in, or voting in favor of, any such fundamental change).

If such purchase date is after a record date but on or prior to an interest payment date, however, then the interest payable on such date will be paid to the holder of record of the Notes on the relevant record date. Subject to satisfaction of certain conditions, we may elect to satisfy our obligation to pay the purchase price, in whole or in part, by delivering Class A Common Shares as further described under "—Delivery of shares."

Within thirty (30) days after we know of the occurrence of a fundamental change, we shall be required to provide notice to all holders of record of Notes, as provided in the Indenture, stating among other things, the occurrence of a fundamental change and setting out the terms of the purchase offer, including whether the purchase price will be paid in cash or Class A Common Shares or any combination of cash or Class A Common Shares, specifying the percentages of each. We must also deliver a copy of the notice to the Trustee.

In order to accept such purchase offer, a holder must deliver prior to the purchase date a purchase notice stating among other things:

- (1) if certificated notes have been issued, the note certificate numbers (or, if the Notes are not certificated, the repurchase notice must comply with appropriate DTC procedures);
- (2) the portion of the principal amount of Notes to be purchased, which must be in principal amounts of \$1,000 and integral multiples of \$1.00 in excess thereof; and
- (3) that the Notes are to be purchased by us pursuant to the applicable provisions of the Notes and the Indenture.

A holder of Notes may withdraw any written purchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the business day prior to the purchase date. The withdrawal notice must state:

- (1) the principal amount of the withdrawn Notes;
- (2) if certificated notes have been issued, the certificate numbers of the withdrawn Notes (or, if the Notes are not certificated, the withdrawal notice must comply with appropriate DTC procedures); and
- (3) the principal amount, if any, which remains subject to the purchase notice.

We will promptly pay the purchase price for Notes surrendered for repurchase following the purchase date.

A "fundamental change" will be deemed to have occurred at the time after the Notes are originally issued that any of the following occurs:

- (1) a "person" or "group" within the meaning of Section 13(d) of the Exchange Act other than us, our subsidiaries or our or their employee benefit plans, files a Schedule TO or any schedule, form or report under the Exchange Act or applicable Canadian securities laws disclosing that such person or group has become the direct or indirect ultimate "beneficial owner," as defined in Rule 13d-3

under the Exchange Act or applicable Canadian securities laws, of our common equity representing more than 50% of the voting power of our common equity;

- (2) consummation of any share exchange, consolidation, amalgamation, merger, statutory arrangement or other combination pursuant to which our Class A Common Shares will be converted into cash, securities or other property or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of us and our subsidiaries, taken as a whole, to any person other than one of our wholly-owned subsidiaries; provided, however, that a transaction where the holders of more than 50% of all classes of our common equity immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of common equity of the continuing or surviving corporation or transferee immediately after such event shall not be a fundamental change;
- (3) continuing directors cease to constitute at least a majority of our board of directors; or
- (4) our shareholders approve any plan or proposal for our liquidation or dissolution.

A fundamental change will not be deemed to have occurred, however, if at least 90% of the consideration, excluding cash payments for fractional shares, in the transaction or transactions otherwise constituting the fundamental change consists of common shares or American Depositary Shares that are traded or listed on, or immediately after the transaction or event will be traded or listed on a U.S. national securities exchange or the Toronto Stock Exchange.

We will comply with any applicable provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act and any Canadian securities laws which may then be applicable in the event of a fundamental change.

No Notes may be purchased upon a fundamental change if there has occurred and is continuing an event of default under the Indenture, other than an event of default that is cured by the payment of the fundamental change purchase price of the Notes.

These fundamental change purchase rights could discourage a potential acquirer. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer or solicitation, or part of a plan by management to adopt a series of anti-takeover provisions. The term "fundamental change" is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. Our obligation to offer to repurchase the Notes upon a fundamental change would not necessarily afford a holder of Notes protection in the event of a leveraged transaction, reorganization, merger or similar transaction involving us.

We may be unable to repurchase the Notes for cash if a fundamental change occurs. If a fundamental change were to occur, we may not have enough funds to pay the purchase price for all tendered Notes. Any future credit agreements or other agreements relating to our indebtedness may contain provisions prohibiting purchase of the Notes for cash under certain circumstances, or expressly prohibit our purchase of the Notes for cash upon a fundamental change or may provide that a fundamental change constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing Notes, we could seek the consent of our lenders to purchase the Notes or attempt to refinance this debt. If we do not obtain the consent or refinance the debt, we would not be permitted to purchase the Notes for cash and would be required to pay the purchase price in Class A Common Shares. Our failure to purchase tendered Notes would constitute an event of default under the Indenture, which might constitute a default under the terms of our other indebtedness.

Delivery of shares

We may, at our option, elect to pay the amount payable in connection with a repurchase of the Notes at the option of the holder in cash or Class A Common Shares or any combination of cash and Class A Common Shares. We may also, at our option, elect to pay the fundamental change purchase price in cash or Class A Common Shares or any combination of cash and Class A Common Shares. Our right to issue Class A Common Shares to pay the repurchase price or the fundamental change purchase price is subject to our satisfying various conditions, including:

- no event of default shall have occurred and be continuing under the Indenture;
- listing of the Class A Common Shares on the principal United States and Canadian securities exchanges on which our Class A Common Shares are then listed, or if not so listed, the listing of the Class A Common Shares on a U.S. national securities exchange;
- the registration of the Class A Common Shares under the Securities Act and the Exchange Act and applicable Canadian securities laws, if required; and
- any necessary qualification or registration under applicable state securities laws or the availability of an exemption from qualification and registration.

If these conditions are not satisfied with respect to a holder before the close of business on the repurchase date or the fundamental change purchase date, as the case may be, we will make the required payment on the Notes of the holder entirely in cash. We may not change the form of components or percentages of components of consideration to be paid for the Notes once we have given the notice that we are required to give to holders of Notes, except as described in the preceding sentence.

If we elect to pay the repurchase price or the fundamental change purchase price in Class A Common Shares, the number of Class A Common Shares to be delivered by us will be determined by dividing the amount of the payment to be made, and that is not paid in cash, by 95% of the average of the Daily VWAP prices of the Class A Common Shares for the ten (10) consecutive trading days ending on the third (3rd) trading day preceding the repurchase date or the fundamental change purchase date, as the case may be, approximately adjusted to take into account the occurrence, during the period commencing on the first of such trading days during such ten (10) day period and ending on such repurchase date or fundamental change purchase date, of certain events that would result in an adjustment of the conversion rate with respect to the Class A Common Shares. See "*Conversion rate adjustments*."

We will not issue any fractional shares in connection with our delivery of Class A Common Shares upon our repurchase of the Notes at the option of the holder or purchase of the Notes in connection with a fundamental change. Instead, we will pay cash based on the closing price of our Class A Common Shares on the applicable payment date for any fractional shares we would otherwise deliver on account of the Notes.

If we elect to satisfy any payment of the repurchase price or the fundamental change purchase price in Class A Common Shares, we will give you notice at least twenty (20) business days before the payment date. Our notice will state:

- whether we will make the payment in cash or Class A Common Shares or any combination of cash and Class A Common Shares;
- if both cash and Class A Common Shares are payable, the percentage of each applicable form of payment on a per note basis; and

- the method of calculating the average closing price of the Class A Common Shares.

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When we determine the actual number of Class A Common Shares in accordance with the foregoing provisions, we will publish the information on our web site or through such other public medium as we may use at that time, including filing a report on Form 6-K with the SEC.

Because the average closing price of the Class A Common Shares is determined prior to the applicable payment date, holders of Notes bear the market risk with respect to the value of the Class A Common Shares to be received from the date the average market price is determined to the payment date. We may deliver Class A Common Shares as payment for the repurchase price or the fundamental change purchase price only if the information necessary to calculate the average closing price is published daily in a newspaper of U.S. or Canadian national circulation or such other public medium as we may use at that time.

Consolidation, merger and sale of assets by us

The Indenture provides that we may, without the consent of any holder of Notes, amalgamate with, consolidate or combine with or merge with or into any other person or sell, transfer or lease all or substantially all of our properties and assets substantially as an entirety to another person, provided that:

- the resulting, surviving or transferee person (the "successor company") will be a corporation, partnership, limited liability company or trust organized and existing under the laws of the United States of America, any state thereof, the District of Columbia, Puerto Rico or the laws of Canada or any province or territory thereunder and the successor company (if not us) will expressly assume, by a supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all of our obligations under the Notes and the Indenture;
- the trustee is satisfied that the transaction will not result in the successor company being required to make any deduction or withholding on account of certain Canadian taxes from any payments in respect of the Notes;
- immediately after giving effect to such transaction, no default under the Indenture, and no event which, after notice or lapse of time or both, would become a default under the Indenture, shall have occurred and be continuing; and
- we shall have delivered to the Trustee an officers' certificate stating that the amalgamation, consolidation, merger or transfer and such supplemental indenture (if any) comply with the provisions of the Indenture.

The successor company will succeed to, and be substituted for, and may exercise every right and power of, us under the Indenture, but in the case of a sale, transfer or lease of substantially all our assets that results in the sale, assignment, conveyance, transfer or other disposition of assets constituting or accounting for less than 95% of our consolidated assets, revenue or net income (loss), we will not be released from the obligation to pay the principal of and interest on the Notes.

Additional amounts

We will make payments on account of the Notes without withholding or deducting on account of any present or future duty, levy, impost, assessment or other governmental charge (including, without limitation, penalties, interest and other liabilities related thereto) imposed or levied by or on behalf of the Government of Canada or of any province or territory thereof or by any authority or agency therein or thereof having the power to tax ("Canadian taxes"), unless we are required by law or the interpretation or administration thereof, to withhold or deduct Canadian taxes. If we are required to withhold or deduct any amount on account of Canadian taxes, we will make such withholding or deduction and pay as additional interest the additional amounts ("additional amounts") necessary so that the net amount received by each holder of Notes after the withholding or deduction (including with

respect to additional amounts) will not be less than the amount the holder would have received if the Canadian taxes had not been withheld or deducted. We will make a similar payment of additional amounts to holders of Notes (other than excluded holders) that are exempt from withholding but are required to pay tax directly on amounts otherwise subject to withholding. However, no additional amounts will be payable with respect to a payment made to a holder or former holder of Notes (an "excluded holder") in respect of the beneficial owner thereof:

- (a) with which we do not deal at arm's length (within the meaning of the Income Tax Act (Canada)) at the time of making such payment;
- (b) that is subject to such Canadian taxes by reason of its failure to comply with any certification, identification, information, documentation or other reporting requirement if compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from, or a reduction in the rate of deduction or withholding of, such Canadian taxes (provided that in the case of any imposition or change in any such certification, identification, information, documentation or other reporting requirements which applies generally to holders of notes who are not residents of Canada, at least sixty (60) days prior to the effective date of any such imposition or change, we shall give written notice, in the manner provided in the indenture, to the Trustee and the holders of the notes then outstanding of such imposition or change, as the case may be, and provide the Trustee and such holders with such forms or documentation, if any, as may be required to comply with such certification, identification, information, documentation, or other reporting requirements); or
- (c) that is subject to such Canadian taxes by reason of its carrying on business in or otherwise being connected with Canada or any province or territory thereof otherwise than by the mere holding of such Notes or the receipt of payment, or exercise of any enforcement rights thereunder;

and no additional amounts will be payable with respect to any estate, inheritance, gift, sales, excise, transfer, personal property or similar tax, assessment or governmental charge (the "excluded taxes").

We will remit the amount we withhold or deduct to the relevant authority. Additional amounts will be paid in cash quarterly, at maturity, on any redemption date, on a conversion date (if applicable) or on any purchase date. With respect to references in this prospectus to the payment of principal or interest on any Note, such reference shall be deemed to include the payment of additional amounts to the extent that, in such context, additional amounts are, were or would be payable.

We will furnish to the Trustee, within thirty (30) days after the date the payment of any Canadian taxes is due pursuant to applicable law, certified copies of tax receipts evidencing that such payment has been made. We will indemnify and hold harmless each holder of Notes (other than an excluded holder) and upon written request reimburse each such holder for the amount of (a) any Canadian taxes so levied or imposed and paid by such holder as a result of payments made under or with respect to the notes, (b) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, and (c) any Canadian taxes levied or imposed and paid by such holder with respect to any reimbursement under (a) and (b) above, but excluding any excluded taxes.

Limitation on layering indebtedness

The Indenture generally provides that we may not incur indebtedness that is contractually senior in right of payment to the Notes and contractually subordinate in right of payment to any of our other indebtedness.

Other negative covenants

Pledge of Mining Data and Arbitration Awards. The Indenture provides that we shall not pledge, hypothecate, transfer or otherwise dispose of or encumber the Mining Data or any Arbitration Award (or permit any

subsidiary to take any of the foregoing actions) without the consent of holders of not less than 75% in aggregate principal amount of the outstanding 2015 Notes and Interest Notes, voting together as a single class.

Limitation on Incurrence of Indebtedness. The Indenture provides that we shall not incur any additional indebtedness that ranks equal in right of payment or senior in right of payment to the 2015 Notes and the Interest Notes (or permit any subsidiary to incur any indebtedness) without the consent of holders of not less than 75% in aggregate principal amount of the outstanding 2015 Notes and Interest Notes, voting together as a single class; provided, for the avoidance of doubt, that this paragraph shall not apply to the payment of interest on the Notes, if any, in Interest Securities or to the payment of ordinary course obligations of ours consistent with past practice.

Limitation on Capital Expenditures. The Indenture provides that our and our subsidiaries' capital expenditures (including for exploration and related activities) shall not exceed an aggregate of \$500,000 in any twelve (12) month period without the consent of holders of not less than a majority in aggregate principal amount of the outstanding 2015 Notes and Interest Notes, voting together as a single class.

Limitation on Amendments, Payment of Fees and Repurchases of Securities. The Indenture provides that we shall not agree to any amendment to the Indenture or modification of our rights and obligations and the rights of holders of any security issued under the Indenture, provide any fees or other compensation whether in cash or in-kind to any holder of any security or engage in the repurchase, redemption or other defeasance of any security without offering such terms, compensation or defeasance to all holders of the 2015 Notes and/or the Interest Notes, as applicable, on an equitable and pro rata basis.

Events of default; notice and waiver

The following are events of default under the Indenture:

- we fail to pay the principal amount of the Notes when due upon redemption, repurchase or otherwise on the Notes;
- we fail to pay interest or additional amounts, if any, on the Notes, when due and such failure continues for a period of thirty (30) days;
- we fail to perform or observe any other covenant or warranty in the Indenture for sixty (60) days after written notice;
- we fail to convert Notes into Class A Common Shares and for cash at our election upon exercise of a holder's conversion right and such failure continues for five (5) business days or more;
- any indebtedness (other than indebtedness which is non-recourse to us or any of our subsidiaries) for money borrowed by us or one of our subsidiaries (all or substantially all of the outstanding voting securities of which are owned, directly or indirectly, by us) in an outstanding principal amount in excess of US\$15 million (or the equivalent thereof in any other currency or currency unit) is not paid at final maturity or upon acceleration and such failure is not cured or the acceleration is not rescinded or annulled, within ten (10) days after written notice as provided in the Indenture;
- the rendering of a final judgment or judgments (not subject to appeal and not covered by insurance) against us or any of our subsidiaries in excess of US\$15 million (or the equivalent thereof in any other currency or currency unit) which remains unstayed, undischarged or unbonded for a period of sixty (60) days;

- our failure to give notice of a fundamental change as described under "Offer to purchase upon a fundamental change" or notice of a specified corporate transaction as described under "*Conversion upon specified corporate transactions*" when due;
- our failure to comply with our obligations under "*Consolidation, merger and sale of assets by us*"; or
- certain events involving our bankruptcy, insolvency or reorganization involving us or our subsidiaries.

The Trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest, including additional amounts, if any, on the Notes. However, the Trustee must consider it to be in the interest of the holders of the Notes to withhold this notice.

If an event of default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare the principal amount of the Notes and interest, including additional amounts, if any, on the outstanding Notes to be immediately due and payable. In case of certain events of bankruptcy, insolvency or reorganization involving us or our subsidiaries, principal amount plus interest, including additional amounts, if any, on the notes will automatically become due and payable. However, if we cure all defaults, except the nonpayment of the principal amount of the Notes plus interest, including additional amounts, if any, that became due as a result of the acceleration, and meet certain other conditions, with certain exceptions, this declaration may be cancelled and the holders of a majority of the principal amount of outstanding Notes may waive these past defaults.

Payments of redemption price, repurchase price, fundamental change repurchase price, principal or interest, including additional amounts on the Notes, if any, that are not made when due will accrue interest at the annual rate of 1% above the then-applicable interest rate from the required payment date to the extent lawful.

Subject to the Trustee's duties in the case of an event of default, the Trustee will not be obligated to exercise any of its rights or powers at the request of the holders, unless the holders have offered to the Trustee indemnity reasonably satisfactory to it. Subject to the Indenture, applicable law and the Trustee's indemnification, the holders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of any proceedings for any remedy available to the Trustee.

No holder of the Notes may pursue any remedy under the Indenture, except in the case of a default in the payment of redemption price, repurchase price, fundamental change repurchase price, principal or interest, including additional amounts (in respect of any default in payment under a note on or after the due date) on the Notes, unless:

- the holder has given the Trustee written notice of an event of default;
- the holders of at least 25% in principal amount of outstanding Notes make a written request, and offer indemnity to the trustee reasonably satisfactory to it to pursue the remedy;
- the Trustee does not receive an inconsistent direction from the holders of a majority in principal amount of the Notes; and
- the Trustee fails to comply with the request within sixty (60) days after receipt.

Modification and waiver

The consent of the holders of a majority in principal amount of the outstanding Notes is required to modify or amend the Indenture. However, a modification or amendment requires the consent of the holder of each outstanding Note affected thereby if it would:

- extend the fixed maturity of any Note;
- reduce the principal amount of, or interest rate on or extend the stated time for payment of interest, including additional amounts, if any, payable on, any Note;
- reduce any amount payable upon redemption or repurchase of any Note;
- after the occurrence of a fundamental change, modify the provisions with respect to the purchase right of the holders upon a fundamental change in a manner adverse to holders;
- impair the right of a holder to institute suit for payment on any Note;
- change the currency in which any Note is payable;
- impair the right of a holder to convert any Note;
- reduce the quorum or voting requirements under the Indenture;
- change any obligation of ours to maintain an office or agency in the places and for the purposes specified in the indenture;
- change the ranking of the Notes in a manner adverse to the holder of the Notes;
- subject to specified exceptions, modify certain of the provisions of the Indenture relating to modification or waiver of provisions of the Indenture; or
- reduce the percentage of Notes required for consent to any modification of the Indenture.

We are permitted to modify certain provisions of the Indenture without the consent of the holders of the Notes.

Notwithstanding the foregoing, but subject to the provisions of the Indenture requiring the consent of the holder of each outstanding Note, any amendment or modification to, or waiver of, any terms or provisions of this Indenture or the 2015 Notes and/or the Interest Notes issuable under this Indenture, in each case that applies only to either or both of such securities or the holders thereof, shall require the consent of holders of not less than 75% in aggregate principal amount of the outstanding 2015 Notes and outstanding Interest Notes, voting together as a single class.

Form, denomination and registration

The Notes are issued:

- in fully registered form; and
- in denominations of \$1,000 principal amount and integral multiples of \$1.00 in excess thereof.

Global note, book-entry form

The Notes are currently evidenced by physical certificates held in the names of the Selling Securityholders. In connection with the filing of the registration statement of which this prospectus forms a part, we intend to request that the Notes become eligible for deposit with DTC. If and when the Notes have been made eligible with DTC, the Notes will be evidenced by one or more global notes, deposited and registered in the name of Cede & Co., as DTC's

nominee. Except as set forth below, a global note issued in the future may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global note may be held through organizations that are participants in DTC. Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global note to such persons may be limited.

Beneficial interests in a global note held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly, and when indirectly they are called "indirect participants." So long as Cede & Co., DTC's nominee, is the registered owner of a global note, Cede & Co. for all purposes will be considered the sole holder of such global note. Except as provided below, owners of beneficial interests in a global note will:

- not be entitled to have certificates registered in their names;
- not receive physical delivery of certificates in definitive registered form; and
- not be considered holders of the global note.

If global notes are issued, we will pay interest, if any, and the repurchase price of a global note to Cede & Co., as the registered owner of the global note. Neither we, the Trustee nor any paying agent will be responsible or liable:

- for the records relating to, or payments made on account of, beneficial ownership interests in a global note; or
- for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

Neither we, the Trustee, registrar, paying agent nor conversion agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Notes, including the presentation of Notes for conversion, only at the direction of one or more participants to whose account with DTC interests in the global note are credited, and only in respect of the principal amount of the Notes represented by the global note as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York, and a member of the Federal Reserve System;
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

We anticipate that, if the Notes are eligible for deposit with DTC, DTC will agree to the foregoing procedures to facilitate transfers of interests in a global note among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time.

Following the issuance of global notes, we will issue Notes in definitive certificate form again only if:

- DTC notifies us that it is unwilling or unable to continue as depositary or DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within ninety (90) days;
- an event of default shall have occurred and the maturity of the Notes shall have been accelerated in accordance with the terms of the Notes and any holder shall have requested in writing the issuance of definitive certificated notes; or
- we have determined in our sole discretion that Notes shall no longer be represented by global notes.

Information concerning the trustee

We have appointed U.S. Bank National Association, the Trustee under the Indenture, as paying agent, conversion agent, note registrar and custodian for the Notes and Computershare Trust Company of Canada as Co-Trustee. The Trustee or its affiliates may provide banking and other services to us in the ordinary course of their business.

The Indenture contains certain limitations on the rights of the Trustee, if it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The Trustee and its affiliates will be permitted to engage in other transactions with us. However, if the Trustee or any affiliate continues to have any conflicting interest and a default occurs with respect to the Notes, the Trustee must eliminate such conflict or resign.

SELLING SECURITYHOLDERS

The following table sets forth information as of July 17, 2014, with respect to the Selling Securityholders for which Class A Common Shares and Notes are being registered for sale. Except for the transactions described under "*Prospectus Summary Relationship to Selling Securityholders*," the Selling Securityholders have not had any material relationship with us within the past three years.

The number of Class A Common Shares issuable upon conversion of the 2015 Notes shown in the tables below assumes conversion of the full amount of 2015 Notes held by each Selling Securityholder at an initial conversion rate of 285.71 Class A Common Shares per \$1,000 principal amount of 2015 Notes (which is equivalent to a conversion price of \$3.50 per share). This conversion price is subject to adjustment in certain events. Accordingly, the number of conversion shares may increase or decrease from time to time. The aggregate principal amount of Interest Notes shown in the table represents the greatest aggregate principal amount of Interest Notes that would be issuable in connection with the payment of interest on the 2015 Notes and any previously issued Interest Notes on or prior to the maturity date of the Notes.

The tables below assume for calculating each Selling Securityholders' beneficial percentage ownership that options, warrants and/or convertible securities that are held by each such Selling Securityholder and are exercisable or convertible within sixty (60) days from the date of this prospectus have been exercised or converted. The tables below also assume (i) the sale of all of the Class A Common Shares and Notes registered for sale by the Selling Securityholders pursuant to this prospectus and (ii) that the Selling Securityholders do not acquire additional Class A Common Shares after the date of this prospectus and prior to completion of this offering. In addition, the Selling Securityholders may sell all, some or none of the Class A Common Shares and/or Notes registered for sale by the Selling Securityholders pursuant to this prospectus. As a result, no estimate can be made of the aggregate number of Class A Common Shares or the aggregate principal amount of Notes, as applicable, that are to be offered hereby, or the aggregate number of Class A Common Shares or the aggregate principal amount of Notes, as applicable, that will be owned by each Selling Securityholder upon completion of the offering to which this prospectus relates.

<i>Securityholder for Which Class A Common Shares are Being Registered for Resale</i>	<i>Class A Common Shares Beneficially owned</i>		<i>Class A Common Shares Beneficially owned after the offering</i>	
	<i>Shares Beneficially owned prior to this offering</i>	<i>Shares Registered for Resale</i>	<i>Number of Class A Common Shares</i>	<i>Percentage⁽¹⁾</i>
Archer Capital Master Fund, L.P. ⁽²⁾	1,415,496 ⁽³⁾	360,857	1,415,496 ⁽³⁾	1.9%
GCOF Europe Sarl ⁽⁴⁾⁽⁵⁾	9,364,924 ⁽⁶⁾	1,837,168	9,364,924 ⁽⁶⁾	12.3%
Hastings Master Fund, L.P. ⁽⁷⁾	171,440 ⁽⁸⁾	39,142	171,440 ⁽⁸⁾	*
Greywolf Capital Overseas Fund II ⁽⁴⁾⁽⁹⁾	4,694,240 ⁽¹⁰⁾	1,005,688	4,694,240 ⁽¹⁰⁾	6.2%
Robert John Morrison ⁽¹¹⁾	2,230,500 ⁽¹²⁾	171,428	2,230,500 ⁽¹²⁾	2.9%
Steelhead Navigator Master, L.P. ⁽¹³⁾	19,667,244 ⁽¹⁴⁾	4,638,857	19,667,244 ⁽¹⁴⁾	25.9%
VR Global Partners, L.P. ⁽¹⁵⁾	1,477,051 ⁽¹⁶⁾	600,000	1,477,051 ⁽¹⁶⁾	1.9%
VR Capital Group Ltd. ⁽¹⁷⁾	26,471 ⁽¹⁸⁾	15,428	26,471 ⁽¹⁸⁾	*
West Face Long Term Opportunities Global Master L.P. ⁽¹⁹⁾	0 ⁽²⁰⁾	1,928,285	0 ⁽²⁰⁾	
	0 ⁽²²⁾	34,571	0 ⁽²²⁾	

West Face Long Term
Opportunities Master Fund
L.P.⁽²¹⁾

West Face Long Term
Opportunities (USA)
Limited Partnership⁽²³⁾

0⁽²⁴⁾

28,000

0⁽²⁴⁾

*Modified Notes
Beneficially
owned after the offering*

<i>Securityholder for Which Modified Notes are <u>Being Registered for Resale</u></i>	<i>Modified Notes Beneficially <u>owned prior to this offering (in US\$)</u></i>	<i>Modified Notes Registered <u>for Resale (in US\$)</u></i>	<i>Modified Notes (in <u>US\$)</u></i>	<i><u>Percentage</u></i>
GCOF Europe Sarl ⁽⁵⁾	2,950,000	2,950,000	0	
Steelhead Navigator Master, L.P. ⁽¹³⁾	16,236,000	16,236,000	0	
VR Global Partners, L.P. ⁽¹⁵⁾	2,100,000	2,100,000	0	
VR Capital Group Ltd. ⁽¹⁷⁾	54,000	54,000	0	
West Face Long Term Opportunities Global Master L.P. ⁽¹⁹⁾	3,749,000	3,749,000	0	
West Face Long Term Opportunities Master Fund L.P. ⁽²¹⁾	121,000	121,000	0	
West Face Long Term Opportunities (USA) Limited Partnership ⁽²³⁾	98,000	98,000	0	

<i>Securityholder for Which New Notes are Being Registered for Resale</i>	<i>New Notes Beneficially owned prior to this offering (in US\$)</i>	<i>New Notes Registered for Resale (in US\$)</i>	<i>Modified Notes Beneficially owned after the offering</i>	
			<i>New Note (in US\$)s</i>	<i>Percentage</i>
Archer Capital Master Fund, L.P. ⁽²⁾	1,263,000	1,263,000	0	
GCOF Europe Sarl ⁽⁵⁾	3,480,091	3,480,091	0	
Greywolf Capital Overseas Fund II ⁽⁹⁾	3,519,909	3,519,909	0	
Hastings Master Fund, L.P. ⁽⁷⁾	137,000	137,000	0	
Robert John Morrison ⁽¹¹⁾	600,000	600,000	0	
West Face Long Term Opportunities Global Master L.P. ⁽¹⁹⁾	3,000,000	3,000,000	0	

<u>Securityholder for Which Interest Notes are Being Registered for Resale</u>	<i>Interest Notes Beneficially owned prior to this offering (in US\$)^(2,5)</i>		<i>Interest Notes Registered for Resale (in US\$)</i>		<i>Modified Notes Beneficially owned after the offering</i>
	<u>Interest Notes (in US\$)</u>	<u>Percentage</u>	<u>Interest Notes (in US\$)</u>	<u>Percentage</u>	
Archer Capital Master Fund, L.P. ⁽²⁾	228,710		228,710	0	
GCOF Europe Sarl ⁽⁵⁾	1,164,383		1,164,383	0	

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$206.3 million in 2017 and \$205.9 million in 2016, constituting 33.7% and 29.1% of net sales, respectively. Selling, general and administrative expenses increased by \$0.4 million, primarily due to bad debt write-offs of \$11.2 million, offset by lower marketing expense and other general and administrative costs. The increases as a percentage of net sales, year over year is due to the lower net sales in 2017 coupled with comparable costs.

Goodwill and Other Intangibles Impairment

Goodwill and other intangibles impairment was \$13.5 million for 2017, as compared to nil in the prior year period. In 2017, we recorded impairment charges of \$8.3 million for goodwill, \$2.9 million to write-off the remaining unamortized technology rights related to DreamPlay, LLC and \$2.3 million to write down several underutilized trademarks and trade names that were determined to have no value.

Income from Joint Ventures

We recognized \$0.1 million of income for funds received in 2017 related to our former video game

joint venture in partial settlement of amounts owed to the Company when our joint venture partner was liquidated pursuant to their 2012 bankruptcy filing. It is not known if any additional funds will be received by us. In 2016, we recognized \$0.2 million of income for funds received related to our former video game joint venture and \$0.7 million of income for funds received related to Pacific Animation Partners.

Other Income

We recognized income of \$0.1 million for funds received in 2017 related to the disgorgement of short swing trading profits from a shareholder, net of legal fees and a \$0.1 million gain on extinguishment of convertible senior notes. We recognized income of \$0.2 million for funds received in 2016 related to the disgorgement of short swing trading profits from a shareholder, net of legal fees and a \$0.1 million gain on extinguishment of convertible senior notes.

Loss on Extinguishment of Convertible Senior Notes

In 2017, we recognized a \$0.6 million loss related to the extinguishment of \$21.5 million face amount of our 4.25% convertible senior notes due in 2018. In 2017, we also recognized a \$0.3 million loss related to the fair market value adjustment for the 3.25% convertible senior notes due in 2020.

Interest Income

Interest income in 2017 was \$37,000, comparable to \$51,000 in 2016.

Interest Expense

Interest expense was \$9.8 million in 2017, as compared to \$13.0 million in the prior year period. In 2017, we recorded interest expense of \$9.4 million related to our convertible senior notes payable due in 2018 and 2020 and \$0.4 million related to our revolving credit facility. In 2016, we recorded interest expense of \$11.7 million related to our convertible senior notes payable, \$0.9 million related to our revolving credit facility and \$0.4 million related to the interest component of our Maui acquisition earn-out. The overall decrease in 2017 is due to a lower average debt.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was \$1.6 million, or an effective tax rate of (2.0%) for 2017. During 2016, the income tax expense was \$4.1 million, or an effective tax rate of 76.8%.

The 2017 tax expense of \$1.6 million included a discrete tax benefit of \$0.6 million primarily comprised of return to provision and uncertain tax position adjustments. Absent these discrete tax benefits, our effective tax rate for 2017 was (2.8%), primarily due to the US federal transition tax, various state taxes and taxes on foreign income.

The 2016 tax expense of \$4.1 million included a discrete tax benefit of \$0.1 million primarily comprised of return to provision adjustments. Absent these discrete tax expenses, our effective tax rate for 2016 was 79.2%, primarily due to US federal alternative minimum tax, various state taxes and taxes on foreign income.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets by jurisdiction. Based on our evaluation of all positive and negative evidence, as of December 31, 2017, a valuation allowance of \$89.7 million has been recorded against the deferred tax assets that more likely than not will not be realized. The net deferred tax liabilities of \$0.8 million consists of the net deferred tax liabilities in the foreign jurisdiction, where we are in a cumulative income position, partially offset by the deferred tax assets in the US related to the AMT carryforward, which are fully realizable.

Comparison of the Years Ended December 31, 2016 and 2015

Net Sales

U.S. and Canada. Net sales of our U.S. and Canada segment were \$478.6 million in 2016, compared to \$478.7 million in 2015, representing a decrease of \$0.1 million. Net sales were flat year-over year primarily due to a decrease in unit sales of various products due to the suspension of shipments to a major U.S. customer and lower than expected unit sales of some movie licensed products, offset by higher unit sales of our Disney Tsum Tsum line of collectibles, Disney Princess

and Alice Through the Looking Glass dolls, kids furniture and accessories, and our Big Figs line.

International. Net sales of our International segment were \$131.2 million in 2016, compared to \$169.8 million in 2015, representing a decrease of \$38.6 million, or 22.7%. The decrease in net sales was primarily driven by declines in unit sales of various products in the United Kingdom and Western Europe due to the reduced buying power of our customers stemming from the devaluation of the British Pound, and lower than expected unit sales of movie licensed product.

Halloween. Net sales of our Halloween segment were \$96.8 million in 2016, compared to \$97.2 million in 2015, representing a decrease of \$0.4 million, or 0.4%. The decrease in net sales was primarily due to a decrease in unit sales of a variety of products in 2016.

Cost of Sales

U.S. and Canada. Cost of sales of our U.S. and Canada segment was \$322.7 million, or 67.4% of related net sales in 2016 compared to \$335.0 million, or 70.0% of related net sales in 2015, representing a decrease of \$12.3 million, or 3.7%. The decrease in cost of sales as a percentage of net sales, year over year, is due to reduced costing of legacy products and product mix, partially offset by increased product tooling driven by new product introductions in 2016. Depreciation of molds and tools for the segment increased slightly in 2016 due to an increase in new product tooling driven by product introductions in 2016.

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International. Cost of sales of our International segment was \$89.2 million, or 68.0% of related net sales in 2016 compared to \$110.2 million, or 64.9% of related net sales in 2015, representing a decrease of \$21.0 million, or 19.1%.

The decrease in cost of sales is a direct function of lower overall unit sales. The increase as a percentage of net sales, year-over-year, is due to the change in product mix to relatively higher cost product and an increase in the average royalty rate.

The increase in royalties is driven by a shift in the product mix to products with relatively higher royalty rates and an increase in royalty rates on shipments made FOB China. Our depreciation of molds and tools for the segment showed a modest increase from 2015 due to increased product tooling driven by new product introductions in 2016.

Halloween. Cost of sales of our Halloween segment was \$71.7 million, or 74.1% of related net sales for 2016 compared to \$72.0 million, or 74.1% of related net sales in 2015, representing a decrease of \$0.3 million, or 0.4%.

The percentage of net sales in 2016 is comparable to 2015.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$205.9 million in 2016 and \$198.0 million in 2015, constituting 29.1% and 26.5% of net sales, respectively. Selling, general and administrative expenses increased by \$7.9 million driven by higher marketing expenses (\$6.7 million), higher product development costs in support of increased product launches (\$2.5

million), and increased depreciation and amortization (\$1.6 million), partially offset by a decrease in general and administrative expenses (\$2.9 million).

Income from Joint Ventures

We recognized \$0.2 million of income for funds received in 2016 related to our former video game joint venture in partial settlement of amounts owed to the Company when our joint venture partner was liquidated pursuant to their 2012 bankruptcy filing and \$0.7 million of income for funds received in 2016 related to Pacific Animation Partners. In 2015, we recognized \$2.7 million in income related to our former video game joint venture and \$0.1 million of income for funds received related to Pacific Animation Partners.

Other Income

We recognized income of \$0.2 million for funds received in 2016 related to the disgorgement of short swing trading profits from a shareholder, net of legal fees and a \$0.1 million gain on extinguishment of convertible senior notes.

Interest Income

Interest income in 2016 was \$51,000, comparable to \$62,000 in 2015.

Interest Expense

Interest expense was \$13.0 million in 2016, as compared to \$12.4 million in 2015. In 2016, we recorded interest expense of \$11.7 million related to our convertible senior notes payable, \$0.9 million related to our revolving credit facility and \$0.4 million related to

the interest component of our Maui acquisition earn-out. In 2015, we recorded interest expense of \$11.5 million related to our convertible senior notes payable and \$0.9 million related to our revolving credit facility.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was \$4.1 million, or an effective tax rate of 76.8% for 2016. During 2015, the income tax expense was \$3.4 million, or an effective tax rate of 12.9%.

The 2016 tax expense of \$4.1 million included a discrete tax benefit of \$0.1 million primarily comprised of return to provision adjustments. Absent these discrete tax benefits, our effective tax rate for 2016 was 79.2%, primarily due to US federal alternative minimum tax, various state taxes and taxes on foreign income.

The 2015 tax expense of \$3.4 million included a discrete tax expense of \$0.9 million primarily comprised of return to provision adjustments. Absent these discrete tax expenses, our effective tax rate for 2015 was 9.5%, primarily due to a full valuation allowance on the Company's United States deferred tax assets and the foreign rate differential, and is impacted by the proportion of Hong Kong earnings to overall earnings and is expected to vary depending on the level of consolidated earnings.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets by jurisdiction.

Based on our evaluation of all positive and negative evidence, as of December 31, 2016, a valuation allowance of \$49.3 million has been recorded against the deferred tax assets that more likely than not will not be realized. The net deferred tax liabilities of \$2.0 million represent the net deferred tax liabilities in the foreign jurisdiction, where we are in a cumulative income position.

As of December 31, 2016, we had net deferred tax liabilities of approximately \$2.0 million related to foreign jurisdictions.

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Quarterly Fluctuations and Seasonality

We have experienced significant quarterly fluctuations in operating results and anticipate these fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. Our first quarter is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. This is consistent with the performance of many companies in the toy industry.

The following table presents our unaudited quarterly results for the years indicated. The seasonality of our business is reflected in this quarterly presentation.

(unaudited)	2016				2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$95,809	\$140,977	\$302,791	\$167,026	\$94,505	\$119,565	\$262,413	\$136,628
As a % of full year	13.6 %	20.0 %	42.8 %	23.6 %	15.4 %	19.5 %	42.8 %	22.3 %
Gross Profit	\$31,183	\$44,800	\$94,933	\$52,105	\$30,021	\$33,719	\$61,781	\$30,160
As a % of full year	14.0 %	20.1 %	42.5 %	23.4 %	19.3 %	21.7 %	39.7 %	19.3 %
As a % of net sales	32.5 %	31.8 %	31.4 %	31.2 %	31.8 %	28.2 %	23.5 %	22.1 %
Income (loss) from operations	\$(13,816)	\$(1,100)	\$34,413	\$(2,391)	\$(15,724)	\$(14,108)	\$(7,746)	\$(26,580)
As a % of full year	(80.8)%	(6.4)%	201.2 %	(14.0)%	24.5 %	22.0 %	12.1 %	41.4 %
As a % of net sales	(14.4)%	(0.8)%	11.4 %	(1.4)%	(16.6)%	(11.8)%	(3.0)%	(19.5)%
Income (loss) before provision (benefit) for income taxes	\$(16,951)	\$(3,441)	\$31,612	\$(5,844)	\$(18,629)	\$(16,371)	\$(16,651)	\$(29,771)
As a % of net sales	(17.7)%	(2.4)%	10.4 %	(3.5)%	(19.7)%	(13.7)%	(6.3)%	(21.8)%
Net income (loss)	\$(17,383)	\$(4,145)	\$30,529	\$(7,752)	\$(18,285)	\$(16,687)	\$(17,569)	\$(30,487)
As a % of net sales	(18.1)%	(2.9)%	10.1 %	(4.6)%	(19.3)%	(14.0)%	(6.7)%	(22.3)%
Net income (loss) attributable to non-controlling interests	\$32	\$224	\$(83)	\$(167)	\$31	\$55	\$45	\$(74)
As a % of net sales	— %	0.2 %	— %	(0.1)%	— %	— %	— %	(0.1)%
Net income (loss) attributable to JAKKS Pacific, Inc.	\$(17,415)	\$(4,369)	\$30,612	\$(7,585)	\$(18,316)	\$(16,742)	\$(17,614)	\$(30,413)

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As a % of net sales	(18.2)%	(3.1)%	10.1 %	(4.5)%	(19.4)%	(14.0)%	(6.7)%	(22.3)%
Diluted earnings (loss) per share	\$(1.01)	\$(0.27)	\$0.82	\$(0.47)	\$(1.01)	\$(0.77)	\$(0.77)	\$(1.33)
Weighted average shares and equivalents outstanding	17,218	16,402	39,504	16,098	18,104	21,616	22,772	22,799

Consistent with the seasonality of our business, first and second quarters of 2016 and 2017 and fourth quarter of 2017, experienced seasonally low sales which coupled with fixed overhead resulted in significant net losses.

Quarterly and year-to-date computations of income (loss) per share amounts are made independently. Therefore, the sum of the per share amounts for the quarters may not agree with the per share amounts for the year.

Debt with Conversion and Other Options

In July 2013, we sold an aggregate of \$100.0 million principal amount of 4.25% convertible senior notes due 2018 (the “2018 Notes”). The 2018 Notes, which are senior unsecured obligations, pay interest semi-annually in arrears on August 1 and February 1 of each year at a rate of 4.25% per annum and will mature on August 1, 2018. The initial and still conversion rate for the 2018 Notes is 114.3674 shares of our common stock per \$1,000 principal amount of notes, equivalent to an initial conversion price of approximately \$8.74 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2018 Notes will be settled in shares of our common stock. Holders of the 2018 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2018 Notes). In 2016, we repurchased and retired \$6.1 million principal amount of the 2018 Notes. In 2017, we exchanged and retired an aggregate of \$51.1 million principal amount of the 2018 Notes at par for \$35.6 million in cash and approximately 3.0 million shares of our common stock, and the maturity of \$21.5 million principal amount of the 2018 Notes was extended to November 1, 2020 along with a reduction in the interest rate to 3.25% per annum if paid in cash and a reduction in the conversion price to \$3.05 per share.

In June 2014, we sold an aggregate of \$115.0 million principal amount of 4.875% convertible senior notes due 2020 (the “2020 Notes”). The 2020 Notes are senior unsecured obligations of the Company paying interest semi-annually in arrears on June 1 and December 1 of each year at a rate of 4.875% per annum and will mature on June 1, 2020. The initial and still conversion rate for the 2020 Notes is 103.7613 shares of our common stock per \$1,000 principal amount of notes, equivalent to an initial conversion price of approximately \$9.64 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2020 Notes will be settled in shares of our common stock. Holders of the 2020 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). In 2016, we repurchased and retired \$2.0 million principal amount of the 2020 Notes.

Liquidity and Capital Resources

As of December 31, 2017, we had working capital of \$146.9 million compared to \$236.6 million as of December 31, 2016. The decrease was primarily attributable to the reclassification of \$21.1 million of the 2018 convertible senior notes to current liabilities, the exchange and retirement of convertible senior notes, and the net loss, partially offset by proceeds from the issuance of common stock to a Hong Kong affiliate of our China joint venture partner during the second quarter of 2017.

Operating activities provided net cash of \$65.8 million, \$16.7 million and \$11.4 million for the years ended December 31, 2015, 2016 and 2017, respectively. Net cash was favorably impacted primarily by decreases in accounts receivable and inventory. Our accounts receivable turnover as measured by days sales for the quarter outstanding in accounts receivable was 90 days, 96 days, and 96 days as of December 31, 2015, 2016 and 2017, respectively. Other than open purchase orders issued in the normal course of business, we have no obligations to purchase finished goods from our manufacturers. As of December 31, 2017, we had cash and cash equivalents of \$65.0 million.

Investing activities used net cash of \$21.7 million, \$15.1 million and \$14.8 million for the years ended December 31, 2015, 2016 and 2017, respectively. Cash used in 2017 consisted primarily of \$14.9 million cash paid for the purchase of molds and tooling used in the manufacture of our products. Cash used in 2016 consisted primarily of \$14.8 million cash paid for the purchase of office furniture, equipment, and molds and tooling used in the manufacturing of our products. Cash used in 2015 consisted primarily of \$17.8 million cash paid for leasehold improvements, the purchase of office furniture, equipment and molds and tooling used in the manufacturing of our products. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties generally ranging from 1% to 21% payable on net sales of such products. As of December 31, 2017, these agreements required future aggregate minimum guarantees of \$57.1 million, exclusive of \$23.4 million in advances already paid. Of this \$57.1 million future minimum guarantee, \$40.7 million is due over the next twelve months.

Financing activities used net cash of \$13.4 million, \$12.0 million and \$21.4 million for the years ended December 31, 2015, 2016 and 2017, respectively. The cash used in 2017 consists primarily of the cash portion of \$35.6 million in the exchange of \$51.1 million principal amount of our 2018 convertible senior notes, partially offset by the issuance of approximately 3.7 million shares of common stock for cash in the amount of \$19.3 million. The cash used in 2016 consists primarily of the repurchase of our common stock and convertible senior notes. The cash used in 2015 consists primarily of the repurchase of our common stock.

The following is a summary of our significant contractual cash obligations for the periods indicated that existed as of December 31, 2017 and is based upon information appearing in the notes to the consolidated financial statements (in thousands):

	Less than 1 year	1 – 3 years	3 – 5 years	More Than 5 years	Total
Short-term debt	\$26,178	\$	\$	\$	\$26,178
Long-term debt		135,469			135,469
Interest on debt	6,734	9,088			15,822
Operating leases	13,403	21,396	18,884	7,121	60,804
Minimum guaranteed license/royalty payments	40,725	16,408			57,133
Employment contracts	8,936	10,312			19,248
Total contractual cash obligations	\$95,976	\$192,673	\$18,884	\$7,121	\$314,654

The above table excludes any potential uncertain income tax liabilities that may become payable upon examination of our income tax returns by taxing authorities. Such amounts and periods of payment cannot be reliably estimated. See Note 13 to the consolidated financial statements for further explanation of our uncertain tax positions.

In October 2016, we acquired the operating assets of the C'est Moi brand of performance makeup and youth skincare products whose distribution is currently limited primarily to Asia. We expect to launch a full line of makeup and skincare products branded under the C'est Moi name in the U.S. and Canada in the first quarter of 2018 prior to which sales are anticipated to be nominal.

We believe that our cash flows from operations and cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements and provide us with adequate liquidity to meet our anticipated operating needs for at least the next 12 months from the issuance of this annual report. We expect our capital expenditures to be approximately \$14.0 million in 2018. Although operating activities are expected to provide cash, to the extent we make any acquisitions or grow significantly in the future, our operating and investing activities may use cash and, consequently, any acquisitions or growth may require us to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to us on commercially reasonable terms, if at all. We intend to finance our long-term liquidity requirements out of net cash provided by operations and net cash and cash equivalents. As of December 31, 2017, we do not have any off-balance sheet arrangements.

During the last three fiscal years ending December 31, 2017, we do not believe that inflation has had a material impact on our net sales and revenues and on income from continuing operations.

Exchange Rates

Sales from our United States and Hong Kong operations are denominated in U.S. dollars and our manufacturing costs are denominated in either U.S. or Hong Kong dollars. Local sales (other than in Hong Kong) and operating expenses of our operations in Hong Kong, the United Kingdom, Germany, France, Spain, Canada, Mexico and China are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the various exchange rates against the U.S. dollar may positively or negatively affect our operating results. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We cannot assure you that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations between the United States and Hong Kong or all other currencies will not have a material adverse effect on our business, financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, should such events occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. To date, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

Interest Rate Risk

As of December 31, 2017, we have outstanding convertible senior notes payable of \$21.2 million principal amount due August 2018 with a fixed interest rate of 4.25% per annum, \$113.0 million principal amount due June 2020 with a fixed interest rate of 4.875% per annum, and \$21.5 million principal amount due November 2020 with a fixed interest rate of 3.25% per annum if paid in cash. As the interest rates on the notes are at fixed rates, we are not generally subject to any direct risk of loss related to these notes arising from changes in interest rates.

Our exposure to market risk includes interest rate fluctuations in connection with our revolving credit facility (see Note 11 - Credit Facility in the accompanying notes to the consolidated financial statements for additional information). Borrowings under the revolving credit facility bear interest at a variable rate based on Prime Lending Rate or LIBOR Rate at the option of the Company. For Prime Lending Rate loans, the interest rate is equal to the highest of (i) the Federal Funds Rate plus a margin of 0.50%, (ii) the rate last quoted by The Wall Street Journal as the "Prime Rate," or (iii) the sum of a LIBOR rate plus 1.00%, plus a margin of 2.25%. For LIBOR rate loans, the interest rate is equal to a LIBOR rate plus a margin of 2.25%. Borrowings under the revolving credit facility are therefore subject to risk based upon prevailing market interest rates. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. During the year ended December 31, 2017, the maximum amount borrowed under the revolving credit facility was \$20.0 million and the average amount of borrowings outstanding was \$5.7 million. As of December 31, 2017, the amount of total borrowings outstanding under the revolving credit facility was \$5.0 million. If the prevailing market interest rates relative to these borrowings increased by 10%, our interest expense during the period ended December 31, 2017 would have increased by less than \$0.1 million.

Foreign Currency Risk

We have wholly-owned subsidiaries in Hong Kong, China, the United Kingdom, Germany, France, Spain, Canada and Mexico. Sales are generally made by these operations on FOB China or Hong Kong terms and are denominated in U.S. dollars. However, purchases of inventory and Hong Kong operating expenses are typically denominated in Hong Kong dollars and local operating expenses in the United Kingdom, Germany, France, Spain, Canada, Mexico and China are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the U.S. dollar exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in these exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows. Therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of these foreign currencies.

Item 8. Consolidated Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

JAKKS Pacific, Inc.

Santa Monica, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. (the "Company") and subsidiaries as of December 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/S/ BDO USA, LLP

We have served as the Company's auditor since 2006.

Los Angeles, California

March 16, 2018

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2017
	(In thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$86,064	\$64,977
Accounts receivable, net of allowance for uncollectible accounts of \$2,864 and \$10,940 in 2016 and 2017, respectively	173,599	142,457
Inventory, net	75,435	58,432
Income taxes receivable	1,204	1,880
Prepaid expenses and other assets	17,077	14,923
Total current assets	353,379	282,669
Property and equipment		
Office furniture and equipment	14,345	15,043
Molds and tooling	103,128	115,378
Leasehold improvements	10,927	10,936
Total	128,400	141,357
Less accumulated depreciation and amortization	105,559	118,130
Property and equipment, net	22,841	23,227
Intangible assets, net	33,111	22,190
Other long term assets	2,156	6,579
Investment in DreamPlay, LLC	7,000	—
Goodwill	43,208	35,384
Trademarks	2,608	300
Total assets	\$464,303	\$370,349
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$51,741	\$49,916
Accrued expenses	38,645	42,145
Reserve for sales returns and allowances	16,424	17,622
Short term debt	10,000	5,000
Convertible senior notes, net	—	21,075
Total current liabilities	116,810	135,758
Convertible senior notes, net	203,007	133,497
Other liabilities	5,004	4,537
Income taxes payable	2,248	1,261
Deferred income taxes, net	2,034	783
Total liabilities	329,103	275,836
Commitments and Contingencies		
Stockholders' equity		
Preferred stock, \$.001 par value; 5,000,000 shares authorized; nil outstanding	—	—
Common stock, \$.001 par value; 100,000,000 shares authorized; 19,376,773 and 26,957,354 shares issued and outstanding in 2016 and 2017, respectively	19	27
Treasury stock, at cost; 3,112,840 shares	(24,000)	(24,000)
Additional paid-in capital	177,624	215,809
Accumulated deficit	(2,148)	(85,233)

Accumulated other comprehensive loss	(17,207)	(13,059)
Total JAKKS Pacific, Inc. stockholders' equity	134,288	93,544
Non-controlling interests	912	969
Total stockholders' equity	135,200	94,513
Total liabilities and stockholders' equity	\$464,303	\$370,349

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended
December 31,
2015 2016 2017
(In thousands, except
per share amounts)