GOLD RESERVE INC
Form 10-K
March 15, 2012

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number: **001-31819**

GOLD RESERVE INC.

(Exact name of Registrant as specified in its charter)

Yukon Territory, Canada	**NA**
(Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
926 West Sprague Avenue, Suite 200, Spokane, Washington	**99201**
(Address of principal executive offices)	Zip Code

(509) 623-1500

(Registrant's Telephone, including area code)

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

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

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

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

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

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

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

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

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

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

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

Documents Incorporated by Reference

Certain information called for by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be included in an amendment to this Form 10-K or incorporated by reference from the registrant's definitive proxy statement for its 2011 annual meeting of shareholders.

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PART II

PART III

Cautionary Statement Regarding Forward-Looking Statements

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

In this report, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies that may cause the Company's actual financial results, performance, or achievements to be materially different from those expressed or implied herein.

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

Investors are cautioned not to put undue reliance on forward-looking statements, and investors should not infer that there has been no change in our affairs since the date of this report that would warrant any modification of any forward-looking statement made in this document, other documents filed periodically with securities regulators or documents presented on our website. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this notice. We disclaim any intent or obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of assumptions or factors, whether as a result of new information, future events or otherwise, subject to our disclosure obligations under applicable rules promulgated by the U.S. Securities and Exchange Commission (the "SEC").

Cautionary Note Regarding Differences in U.S. and Canadian Reporting Practices

Commencing in 2011, the Company changed its basis of accounting and financial reporting from Canadian GAAP to US GAAP. The Company accounted for this change in presentation on a retroactive basis. The balance sheet amounts as of December 31, 2010 and the comparative operating results for the years ended December 31, 2010 and 2009 were restated accordingly. Our audited consolidated financial statements included in "Part II - Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K may not be comparable to financial statements of companies reporting in accordance with Canadian GAAP.

Currency and Exchange rates

Unless otherwise indicated, all references to "$" or "U.S. dollars" in this Annual Report on Form 10-K refer to U.S. dollars, references to "Cdn$" or "Canadian dollars" refer to Canadian dollars and references to "Bs" refer to Venezuelan Bolivars. The 12 month average rate of exchange for one Canadian dollar, expressed in U.S. dollars, for each of the

last three years equaled 1.0112, 0.9707 and 0.8761, respectively, and the exchange rate at the end of each such period equaled 0.9835, 0.9991 and 0.9559, respectively.

PART I

Item 1. Business

In this Annual Report on Form 10-K, the terms "we," "us," "our," "Gold Reserve" and the "Company" refer to Gold Reserve Inc. and its consolidated subsidiaries and affiliates, unless the context requires otherwise.

Gold Reserve Inc. is engaged in the business of acquiring, exploring and developing mining projects. The Company is an exploration stage company incorporated in 1998 under the laws of the Yukon Territory, Canada and is 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 gold and copper project located in the Kilometer 88 mining district of the State of Bolivar in south-eastern Venezuela (which we refer to as the "Brisas Project" or "Brisas"). The Brisas Project was expropriated by the Venezuelan government in 2008. See Item 3. Legal Proceedings - Arbitration.

Our registered agent is Austring, Fendrick, Fairman & Parkkari, The Drury Building, 3801 Third Avenue, Whitehorse, Yukon, Y1A 4Z7. Telephone and fax numbers for our registered agent are 867.668.4405 and 867.668.3710, respectively. 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.

In February 1999, Gold Reserve Corporation, pursuant to a plan of reorganization, became a subsidiary of Gold Reserve Inc., the successor issuer (the "Reorganization"). Generally, each shareholder of Gold Reserve Corporation received one Gold Reserve Inc. Class A common share for each common share owned of Gold Reserve Corporation. Certain U.S. holders of Gold Reserve Corporation elected for tax reasons, to receive equity units comprised of one Gold Reserve Inc. Class B common share and one Gold Reserve Corporation Class B common share in lieu of Gold Reserve Inc. Class A common shares. Each equity unit is substantially equivalent to a Class A common share and is convertible into a Gold Reserve Inc. Class A common share. Equity units are not listed for trading on any stock exchange, but, subject to compliance with applicable federal, provincial and state securities laws, may be transferred. Unless otherwise noted, general references to common shares of the Company include Class A common shares and Class B common shares as a combined group.

The Company no longer characterizes historically reported mineralization related to the Brisas Project as "reserves". The information contained in this Annual Report on Form 10-K relating to our past development efforts and reported mineral reserves for the Brisas Project and status of Choco 5 property are presented only for informational and historical purposes and should not be construed as an indication of our expectations regarding the future development and operation of these properties or the outcome of the arbitration proceedings.

In April 2008, the Venezuelan government revoked the March 2007 Authorization for the Affectation of Natural Resources for the Construction of Infrastructure and Services Phase of the Brisas Project (the "Authorization to Affect") for the commencement of construction at the Brisas Project (essentially a construction permit). For the next 12 months we attempted to have the Authorization to Affect reinstated and ultimately determined in April 2009 to notify the government of our intent to commence arbitration under the Canada-Venezuela Bilateral Investment Treaty ("Canada-Venezuela BIT") if an amicable resolution was not reached.

In October 2009 we filed a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID"), against the Bolivarian Republic of Venezuela ("Respondent") alleging violations of three provisions of the Canada-Venezuela BIT culminating in the effective expropriation of Gold Reserve's sizable investments in the world-class Brisas gold/copper project and the promising Choco 5 property. In November 2009 our Request for Arbitration was registered by ICSID (Gold Reserve Inc. v. Bolivarian Republic of Venezuela (ICSID Case No. ARB(AF)/09/1)). Gold Reserve is seeking compensation in the arbitration for all of the loss and damage resulting from Venezuela's wrongful conduct including the full market value of the legal rights to develop the Brisas Project, the value of the Choco 5 Property and interest on the claim calculated since the loss of approximately $400 million (as of July 2011) which, as revised, totals an estimated $2.1 billion

In compliance with the schedule originally set by the Tribunal, which has been amended by the Tribunal from time-to-time, we filed our initial written submission, referred to as the Memorial, in September 2010. Thereafter in April 2011, the Respondent Venezuela submitted its response to the Company's Memorial, referred to as the Counter-Memorial. Subsequent to that, the Company submitted its Reply to the Respondent's Counter Memorial in July 2011, and finally Respondent filed its Rejoinder in December 2011. The Rejoinder was the last filing to be made prior to the oral hearing which was held February 13 to February 17, 2012.

The oral hearing was the culmination of an extensive undertaking by the Company's counsel, technical, legal and financial experts, as well as its employees which focused on the evidentiary record in the case and allowed counsel for both the Company and Venezuela to address the issues of jurisdiction, liability and damages. The oral hearing also allowed the Tribunal to hear testimony from certain fact and expert witnesses, as well as to address questions to each of the parties.

The Tribunal granted both parties the opportunity to submit a post-hearing brief, to be filed simultaneously, in order to comment in conclusion on the full evidentiary record, as is typically permitted in such arbitrations. Those briefs are due to be filed by March 16, 2012. The Tribunal may request additional information from the parties and in any event may issue its decision thereafter. It is typical for tribunals in this type of arbitration to require six to eighteen months (the historical average is approximately 1.2 years) to finalize and issue its decision.

In June 2011, the Company was advised by the NYSE Amex LLC (the "Amex") that it intended to delist the Company's common shares. The seizure of the Brisas Project by the Venezuelan authorities in October 2009, led the Amex to conclude that the Company "no longer complied" with the Amex's continued listing rules. The Company appealed the Amex's decision and, in October 2011, the Company received notice that the Amex had accepted the Company's plan to regain compliance with the Amex's listing standards (the "Plan") by a targeted completion date of December 20, 2012. During this time the Company's listing is being continued pursuant to an extension.

The Plan provides for an 18 month schedule (starting from the initial date of notice of non-compliance, June 20, 2011) whereby the Company expects to obtain a working interest in one or more acceptable mineral exploration properties with commensurate exploration expenditures made thereon. The Company will continue to provide the Amex staff with updates relative to the initiatives detailed in the Plan, including the specific milestones to be met by July 31, 2012 and December 20, 2012.

In November 2011, the Company was similarly advised by the Toronto Stock Exchange (the "TSX") that it also intended to delist the Company's common shares because, in its opinion, the Company "no longer complied" with its continued listing rules as a result of the seizure of the Brisas Project. Although the Company appealed the TSX's original determination, submitting a plan similar to that approved by the Amex, the Company's plans were not sufficiently advanced for the TSX to grant the Company additional time to regain compliance. As a result, trading of the Company's common shares (symbol "GRZ.V") moved from the TSX to the TSX Venture Exchange – Tier 2 (the "TSX Venture") beginning February 1, 2012.

Historically we have financed the Company's operations through the issuance of common stock, other equity securities and convertible debt. We have no commercial production at this time and, as a result, we have not recorded revenue or cash flows from mining operations and continue to experience losses from operations, a trend we expect to continue unless the investment dispute regarding Brisas is resolved favorably to the Company and/or we acquire or invest in an alternative project.

A determining factor in the Company's current financial position and continuing results of operations is the substantial operating deficits and Brisas Project development costs incurred since 1992, the issuance of $183 million of convertible notes and common shares and the acquisition of approximately $125 million of equipment subsequent to the issuance of the Authorization to Affect, the termination of the development of Brisas and Choco 5 as a result of the seizure of the Brisas Project, the ongoing ICSID arbitration, the write-down of previously capitalized costs and equipment associated with the project development and the ongoing disposal of such equipment.

Our objectives continue to be: (1) obtain a working interest in one or more acceptable mineral exploration properties; (2) diligently pursue the arbitration claim against Venezuela and minimize costs to the extent possible; (3) pursue an amicable settlement with Venezuela that may include a monetary agreement and/or project participation; (4) dispose of remaining assets previously purchased for the Brisas Project; and (5) evaluate the Company's options to redeem, restructure or otherwise modify the terms of the 5.50% convertible notes the outcome of which, among other things, is subject to the sale of the Brisas Project assets.

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Our material subsidiaries are as follows:

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

Item 1A. Risk Factors

Failure to prevail in the arbitration proceedings and obtain compensation from Venezuela for the Brisas Project and Choco 5 property could materially adversely affect the Company.

In October 2009 we filed a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID"), against the Bolivarian Republic of Venezuela ("Respondent") seeking compensation for all of the loss and damage resulting from Venezuela's wrongful conduct, including the expropriation of the Brisas Project. Our claim includes the full market value of the legal rights to develop the Brisas Project as of the date of the Tribunals 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 loss) to July 29, 2011 (the date of our last filing) of approximately $400 million. The cost of prosecuting our arbitration claim is substantial, and there is no assurance that we will be successful in establishing Venezuela's liability or, if successful, will collect any award by the Tribunal for compensation from Venezuela. See Item 3. Legal Proceedings - Arbitration.

The conversion, repurchase or restructure of our outstanding convertible notes could result in the issuance of a significant number of our common shares causing significant dilution to existing shareholders and, in certain circumstances, could result in a change of control.

In May 2007, we issued $103,500,000 aggregate principal amount of 5.50% convertible notes due on June 15, 2022. On June 15, 2012, note holders have a one time option to require the Company to repurchase the notes at a price equal

to 100% of the principal amount of the notes plus unpaid interest. We may elect to satisfy our obligation to repurchase the outstanding notes, in whole or in part, with cash depending on our financial position at that time or by delivering common shares which would require us to issue shares based on the share price on June 15, 2012, likely resulting in significant dilution to existing shareholders and a potential change of control of the Company which could result in the payment of severance compensation pursuant to change of control agreements with certain employees. See Notes 9 and 13 to the consolidated financial statements.

Our ability to obtain the resources required for continued servicing or restructuring of our convertible notes or to meet other obligations as they come due depends on numerous factors, some of which are beyond our control.

Unless and until we successfully collect an arbitral award, if any, or acquire and/or develop other operating properties which provide positive cash flow, our ability to meet our obligations as they come due or redeem in whole or part or otherwise restructure the convertible notes excluding the note holder’s option to require the Company to redeem the convertible notes on June 15, 2012, will be limited to our cash on hand and/or our ability to issue additional equity or debt securities in the future. Such transactions could potentially cause substantial dilution to the then existing shareholders and, in certain circumstances, could result in a change of control.

Failure to acquire or invest in another mining project could adversely affect future results including continued listing on the Amex or TSX Venture.

We are actively pursuing alternative mining prospects. However, the identification of a viable mining project takes time, and a substantial amount of management's attention has been focused on the Brisas arbitration proceeding. Even if a new mining project is identified, there is no guarantee that we could adequately finance or successfully construct and operate the project. In addition, the Company is subject to a Plan to regain compliance with the continued listing rules of the Amex and is required to maintain compliance with the TSX Venture listing rules. No assurances can be given that the Company will be able to achieve compliance with the Amex Company Guide within the required time frame and/or maintain continued compliance with the TSX Venture Company Manual and, as a result, could be subject to future delisting actions. See Item 1. Business.

Industry competition for new properties could limit the Company's 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.

The outcome of the litigation regarding the enjoined hostile takeover bid may adversely affect our business.

In December 2008, the Company filed an action in the Ontario Superior Court of Justice against Rusoro and Rusoro's financial advisor Endeavour Financial International Corporation ("Endeavour") seeking an injunction restraining Rusoro and Endeavour from proceeding with an unsolicited offer by Rusoro to acquire all of the Company's outstanding shares, significant monetary damages, and various other items. Endeavour was the Company's financial advisor from 2004 until shortly after the commencement of Rusoro's offer. The Company was subsequently granted an interlocutory injunction restraining Rusoro and Endeavour from proceeding with any hostile bid until the conclusion and disposition at trial of our original legal action. A subsequent appeal by Rusoro was denied and thereafter Rusoro and Endeavour filed counterclaims against the Company for, among other things, damages of Cdn $102.5 million and $0.5 million, respectively. Our legal action is ongoing and there can be no assurances as to its ultimate outcome, whether Rusoro and or Endeavour will pursue any other legal course of action or, if successful, whether Rusoro will initiate another unsolicited offer for the Company. See Item 3. Legal Proceedings - Litigation.

Failure to retain and attract key personnel could adversely affect the Company.

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 the Company 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 our arbitration claims) 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.

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 five years, a trend we expect to continue unless and until the investment dispute regarding Brisas is resolved favorably to the Company and/or we acquire or invest in an alternative project and achieve commercial production.

We may issue additional common shares, debt instruments convertible into common shares or other equity-based instruments to fund future operations.

We cannot predict the size of any such future issuances of securities, or the effect, if any, that future issuances and sales of our securities will have on the market price of our common shares or the fair market value of the notes. Any transaction involving the issuance of previously authorized but unissued shares, or securities convertible into shares, will result in dilution, possibly of a substantial nature, to present and prospective holders of shares and in certain circumstances could result in a Change of Control.

The price and liquidity of our common shares may be volatile.

The market price of our common shares may fluctuate based on a number of factors, some of which are beyond our control, including:

- the result of our arbitration and litigation proceedings;
- economic and political developments in Venezuela;
- our operating performance and financial condition;

- continued listing of our common shares on Canadian and US stock exchanges;
- 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;
- acquisitions, strategic alliances or joint ventures involving us or other companies.

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 give 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.

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

U.S. taxpayers should be aware that we have determined that the Company is a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC") for the taxable year ended December 31, 2011, and it 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, 2011, 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 IRS would not take the position that certain subsidiaries are not PFIC's. The determination of whether the Company and any of its subsidiaries will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether the Company and any of its subsidiaries will be a PFIC for any taxable year generally depends on the Company's and its subsidiaries' assets and income over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this Annual Report on Form 10-K. 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 common shares and any "excess distributions" (as specifically defined) paid on the Company's common shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the common shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the common shares generally will be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if

such tax liability had been due in each such prior year.

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

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 the Company, 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 the Yukon Territory, 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 directors, officers or experts who are not resident in the U.S. It may also be difficult for an investor to enforce a judgment obtained in a U.S. court or a court of another jurisdiction of residence predicated upon the civil liability provisions of Canadian security laws or U.S. federal securities laws or other laws of the U.S. or any state thereof against us or those persons.

Item 1B. Unresolved Staff Comments- Not Applicable.

Item 2. Properties

The Company no longer characterizes historically reported mineralization related to the Brisas Project as "reserves". The information contained in this Annual Report on Form 10-K relating to our past development efforts and reported mineral reserves for the Brisas Project and status of the Choco 5 property are presented only for informational and historical purposes and should not be construed as an indication of our expectations regarding the future development and operation of these properties or the outcome of the arbitration proceedings.

The Company acquired the Brisas Project and the Choco 5 property in 1992 and 2000, respectively both located in the Guayana region of Bolivar State, Venezuela. From 1992 to 2008 the Company focused substantially all of its management and financial resources on the development of the Brisas gold and copper project. Management completed an original Bankable Feasibility Study in 2005. In March 2008, we updated the study and prepared a new National Instrument ("NI") 43-101 report for the Brisas Project. The operating plan as last revised assumed a large open pit mine with projected proven and probable reserves of approximately 10.2 million ounces of gold and 1.4 billion pounds of copper in 483 million tonnes of ore grading 0.66 grams of gold per tonne and 0.13% copper, at a revenue cutoff grade of $3.54 per tonne using a gold price of $470 per ounce and a copper price of $1.35 per pound.

After approval of the Brisas operating plan by the Ministry of Mines and the Environmental and Social Impact Study for infrastructure and service works by the Ministry of Environment in 2003 and early 2007, respectively, the Ministry of Environment issued in March 2007, the Authorization to Affect. Based on the issuance of the Authorization to Affect, we commenced significant pre-construction efforts including accelerating detailed project engineering, hiring senior technical staff and awarding contracts for Brisas site prep, construction camp facilities, processing equipment, early-works construction equipment and various other site equipment totaling approximately $125 million and launched a number of environmental and social initiatives. In order to fund these activities, the Company completed the sale of approximately $183 million of convertible notes and common shares.

In April 2008, Venezuela revoked the Authorization to Affect. This revocation and subsequent improper actions by Venezuela forced the Company to discontinue development of the Brisas Project and exploration of the Choco 5 property. In October 2009 the Company filed a Request for Arbitration under the Additional Facility Rules of the International Centre for Settlement of Investment Disputes ("ICSID"), against Venezuela ("Respondent") and shortly thereafter, Venezuelan government personnel took physical possession of the property. See Item 3. Legal Proceedings - Arbitration.

The Choco 5 property, a grass–roots gold and other mineral property was subleased from CVG/Minerven. We suspended all Choco 5 exploration activities pending the resolution of the Brisas investment dispute with Venezuela.

In addition to executing its strategy related to the arbitration effort, management has identified a number of potential mineral prospects and has signed or is in the process of signing confidentiality agreements allowing access to the target company's confidential information regarding the prospect. As with any similarly-situated mining company, we are evaluating multiple prospects at once as these efforts are subject to, among other things, the mineralized potential, the terms of any agreement, the level and quality of previous work completed by the target companies, schedules, weather and geography. Our selection process or criteria, among others, focuses on prospects that are promising, have potential for success and are generally located in politically friendly jurisdictions which have clear and well established mining, tax and environmental laws, an experienced mining authority and are likely to be open pit versus underground prospects.

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Item 3. Legal Proceedings

Arbitration

In October 2009 we filed a Request for Arbitration under the Additional Facility Rules of ICSID against the Respondent seeking compensation in the arbitration for all of the loss and damage resulting from the Respondent's wrongful conduct. Gold Reserve alleges violations of three provisions of the Canada-Venezuela BIT culminating in the effective expropriation of Gold Reserve's sizable investments in the world-class Brisas gold/copper project and the promising Choco 5 property. In November 2009 our Request for Arbitration was registered by ICSID (Gold Reserve Inc. v. Bolivarian Republic of Venezuela (ICSID Case No. ARB(AF)/09/1)). Our claim includes the full market value of the legal rights to develop the Brisas Project at 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 loss) to July 29, 2011 (the date of our last filing) of approximately $400 million.

The full market value of the legal rights to develop the Brisas Project was measured by an independent expert pursuant to a fair market value standard utilizing three standard valuation approaches: (1) the Discounted Cash Flow ("DCF") Approach, (2) the Comparable Publicly Traded Company ("CPTC") Approach, and (3) the Comparable Transaction ("CT") Approach. These three valuations converged in a reasonably consistent range of values, which were combined to arrive at a weighted average valuation based upon the independent expert's qualitative assessment of the robustness of the data available to implement each valuation methodology.

Venezuela has numerous pending arbitration actions being pursued against it at this time before ICSID (See ICSID website-http://icsid.worldbank.org/ICSID/) and has reportedly settled and/or made full or partial payment for damages to a limited number of claimants in past months, although management has no specific information regarding the actual amounts paid or what percentage such payments represented of the original claim against Venezuela. Based on the uncertain nature of arbitration under investment treaties, the timing and the amount of an award or settlement, if any, the likelihood of its collection and the timing thereof cannot be determined at this time.

The Tribunal held its first session with the parties on April 23, 2010 during which time several procedural matters were agreed to, including the time schedule for the Arbitration. In compliance with that schedule, as amended from time to time by the Tribunal, we filed our initial written submission, referred to as the Memorial, on September 24, 2010. On April 14, 2011 the Respondent submitted its reply to the Company's Memorial, referred to as the Counter-Memorial.

In accordance with the revised procedural calendar, the Company filed its reply on July 29, 2011, updating its claim to $2.1 billion to account for interest from the date of loss accrued since its earlier filing, and on December 8, 2011 the Respondent filed its reply, which was the final filing prior to the oral hearing, which concluded, as scheduled, on February 17, 2012.

The oral hearing, the culmination of an extensive undertaking by the Company's counsel, technical, legal and financial experts, as well as its employees, focused on the evidentiary record in the case and allowed counsel for both the Company and Venezuela to address the issues of jurisdiction, liability and damages. The oral hearing also allowed the Tribunal to hear testimony from certain fact and expert witnesses, as well as to address questions to each of the parties.

The Tribunal granted both parties the opportunity to submit a post-hearing brief, to be filed simultaneously, in order to comment in conclusion on the full evidentiary record, as is typically permitted in such arbitrations. Those briefs are

due to be filed by March 16, 2012. The Tribunal may request further information and in any event may issue its decision thereafter. It is typical for tribunals in this type of arbitration to require six to eighteen months (the historical average is approximately 1.2 years) to finalize and issue its decision.

The Canada-Venezuela BIT requires as a precondition to bringing an arbitration claim under the Treaty that an investor and any enterprise the investor owns directly or indirectly that has suffered losses that form the basis of a claim by the investor to "waive[ ] its right to initiate or continue any other proceedings in relation to the measure that is alleged to be in breach of [the Treaty] before the courts or tribunals of the Contracting Party concerned or in a dispute settlement procedure of any kind." As a result, the Company and its relevant subsidiaries waived their right to commence or continue before Venezuelan courts or tribunals with other legal or administrative challenges to the conduct that forms the basis of the ICSID claim, including the revocation of the Authorization to Affect for the properties comprising the Brisas Project and the denial of the extension of the Brisas Alluvial and El Pauji Concessions.

Litigation

On December 15, 2008, Rusoro Mining Ltd. ("Rusoro") commenced an unsolicited offer to acquire all of the outstanding shares and equity units of the Company in consideration for three shares of Rusoro for each Company share or equity unit. On December 16, 2008, the Company filed an action in the Ontario Superior Court of Justice against Rusoro and Rusoro's financial advisor Endeavour Financial International Corporation ("Endeavour") seeking an injunction restraining Rusoro and Endeavour from proceeding with Rusoro's unsolicited offer, significant monetary damages, and various other items. Endeavour was the Company's financial advisor from 2004 until shortly after the commencement of Rusoro's offer.

On February 10, 2009, the Ontario Superior Court of Justice granted an interlocutory injunction restraining Rusoro from proceeding with any hostile takeover bid to acquire the shares of the Company until the conclusion and disposition at trial of the action commenced by the Company. The injunction was granted by the Court following a motion by the Company on the basis that Rusoro had access to or benefited from the use of the Company's confidential information as a result of Rusoro's relationship with Endeavour. The Court also issued an interlocutory injunction restraining Endeavour from having any involvement with a hostile takeover bid for the Company. The Court further required that Rusoro, Endeavour and their agents return to the Company both all the confidential information of the Company and also anything produced from that confidential information and pay the court costs. Following the issuance of the interlocutory injunctions, Rusoro withdrew its unsolicited offer to acquire the outstanding shares and equity units of the Company.

On February 15, 2009, Rusoro and Endeavour both served a motion with the Ontario Superior Court of Justice seeking permission to appeal to the Divisional Court the February 10, 2009 order that was granted against them. The Company opposed these motions which were heard in Toronto on April 2, 2009. On April 6, 2009 the permission to appeal was denied. Rusoro has filed a counterclaim against the Company for, among other things, damages of Cdn $102.5 million allegedly arising from the Company's successful motion for an interlocutory injunction. Endeavour has filed a $0.5 million counter claim against the Company relating to the lost opportunity to earn a success fee from the successful completion of the Rusoro offer. The Company has developed its strategy for the execution of this action, added two additional defendants, amended the claim for monetary damages and collected all its relevant documents, including electronically stored information and is in the process of proceeding to depositions.

Our counsel with respect to this litigation matter has advised management that it is premature to determine the likely outcome of the litigation with substantial reliability. In the event that one or both defendants prevail with their counterclaims, the Company could be subject to the full amount of the combined damages noted above. However, based on the facts of the case, the activity through the filing date and the overall scope and context of the proceedings, management has concluded, pursuant to the guidance contained in ASC 450-20-50-4, that an estimate of the possible loss or range of loss cannot be made at this time.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchase of Equity Securities

Offer and Listing details

The Class A common shares (symbol “GRZ.V”) of Gold Reserve Inc. are traded in Canada on the TSX Venture. Prior to February 1, 2012, the shares were traded on the TSX. The shares are also traded in the United States on the Amex under the symbol “GRZ.” Neither the Company’s equity units nor the 5.50% convertible notes and the related underlying securities are listed for trading on any exchange.

	TSX VENTURE/TSX		**AMEX**	
	Canadian dollars		*U.S. dollars*	
2012	High	Low	High	Low
March (through 03/14/12)	$3.09	$3.00	$3.14	$2.90