GOLD RESERVE INC
Form 10-K
March 23, 2011

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended: December 31, 2010

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 Toronto Stock Exchange (TSX)**
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 xNo

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 xNo

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

Indicate by check mark whether the registrant 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). xYes ¨No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨Yes xNo

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, 2010 (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 ($0.81): $25,947,925. As of March 22, 2011, 58,962,351 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 2010 annual meeting of shareholders.

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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 predictio 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

We maintain our accounts in U.S. dollars and prepare our financial statements, which are filed with this Annual Report on Form 10-K, in accordance with Canadian generally accepted accounting principles (Canadian GAAP), and subject to Canadian auditing and auditor independence standards. 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 U.S. GAAP. Significant differences between Canadian GAAP and U.S. GAAP are described in Note 19 of our consolidated financial statements.

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 0.9707, 0.8761, and 0.9374, respectively and the exchange rate at the end of each such period equaled 0.9991, 0.9559, and 0.8170, 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.

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, the shareholders of Gold Reserve Corporation approved a plan of reorganization whereby Gold Reserve Corporation 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 in lieu of Gold Reserve Inc. 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. Each equity unit is substantially equivalent to a Class A common share and is immediately convertible into a Gold Reserve Inc. Class A common share, upon compliance with certain procedures. 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.

Our material subsidiaries are as follows:

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.

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.

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, regulatory process and reported mineral reserves for the Brisas Project and 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.

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 Kilometre 88 mining district of the State of Bolivar in southeastern Venezuela (which we refer to as the Brisas Project or Brisas). The Brisas Project is one of the largest undeveloped gold/copper deposits in the world, containing estimated ore reserves of 10.2 million ounces of gold and 1.4 billion pounds of copper. See Item 2. Properties.

In April 2008, the Bolivarian Republic of Venezuela (Venezuela) 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 or the Permit). In April 2009, after one year of efforts to reinstate the Permit the Company formally notified Venezuela of the existence of a dispute between the Company and Venezuela.

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) of the World Bank, in Washington D.C. against Venezuela seeking compensation for the losses caused to the Company resulting from Venezuela s violations of the Canada Venezuela Bilateral Investment Treaty (the Canada Venezuela Treaty) in regard to the Company and its investments in Venezuela relating to the Brisas Project and the Choco 5 property. In November 2009 ICSID registered our Request for Arbitration and in April 2010 the first Session of the Tribunal was held that established procedural matters and the calendar for the briefings.

In compliance with the schedule established by the ICSID Tribunal, we filed our initial written submission, known as the Memorial, on September 24, 2010, seeking compensation of US$1.928 billion for all of the loss and damage resulting from Venezuela s wrongful conduct, which includes the full market value of the legal rights to develop the Brisas Project. See Item 2. Properties and Item 3. Legal Proceedings Arbitration.

In continuance of our 2010 efforts, our primary 2011 objectives are to manage the arbitration claim against Venezuela including, to the extent possible, accelerating its completion and to minimize costs. Our other major objectives for 2011 are to continue to: (1) pursue an amicable settlement with Venezuela that may include a monetary agreement and/or project participation; (2) dispose of previously purchased Brisas Project assets, which originally cost approximately $39 million and are recorded on the balance sheet at their estimated net realizable value of $28 million; (3) pursue alternative industry opportunities for participation; and (4) continue to evaluate the Company s options to redeem, restructure or otherwise modify the terms of the 5.50% convertible notes which, among other things, are subject to the sale of the Brisas Project assets.

We believe the successful execution of these objectives will be facilitated by the Company s senior management team, which has extensive technical, financial and administrative experience in the mining industry- substantially all of whom have been employed by the Company for over 15 years with a single focus of developing the Brisas Project. These individuals not only possess valuable historical knowledge related to the Brisas Project which is important to the successful execution of our arbitration efforts but they also play a critical role in the Company s ongoing evaluation and monitoring of mining opportunities for potential participation by the Company. The timing of any such new investment or transaction if any, and the amounts that may be required cannot be determined at this time and are subject to available cash, sale of equipment originally slated for the Brisas Project and/or future financings, if any.

In October 2010, the Company attended a meeting with representatives from the Venezuelan Attorney General s office and the Ministry of Basic Industry and Mines (MIBAM) to discuss our dispute and possible resolutions. As a result of the meeting we have had formal and informal communications and expect to meet with these representatives in the near future to continue our discussions.

In December 2010, Venezuela filed a request with the Tribunal for the production of documents over and above the 33 volumes of hard copy exhibits and thousands of pages of electronic appendices which accompanied the Company s September 24, 2010 Memorial and also filed a jurisdictional objection claiming that Gold Reserve did not have the right to present a claim under the Canada Venezuela Treaty. Venezuela further requested a suspension of the proceedings on the merits so that the jurisdictional objections could be treated as a preliminary matter separate from the merits.

On February 3, 2011, the Tribunal issued a procedural order granting in part Venezuela s request for the production of certain documents. To the extent the documents ordered to be produced were deemed to be proprietary by the Company, the Tribunal s order granted view-only access to such documents. In addition to the production of documents, the Tribunal in its order established a revised schedule for the remaining written submissions including granting Venezuela a five week extension from March 7, 2011 to April 14, 2011 to file its response or Counter-Memorial to the Company s Memorial. The oral hearing date of February 6, 2012 remains unchanged.

On February 25, 2011, the Tribunal denied Venezuela s previous petition to bifurcate the arbitration into a jurisdiction phase and a merits phase and decided that Venezuela s jurisdictional objections will be addressed together with the merits. See Item 3. Legal Proceedings Arbitration

Item 1A.

Risk Factors

Failure to prevail in the arbitration proceedings and obtain compensation from Venezuela for the value of our investment in the Brisas Project could materially adversely affect the Company.

We commenced arbitration proceedings in October 2009 to establish Venezuela s liability for its breaches of the Canada Venezuela Treaty, including the expropriation of the Brisas Project, and to obtain compensation of $1.928 billion as a result of such breaches. The cost of prosecuting our claims in the arbitration over an estimated three to five years could be substantial, and there is no assurance that we will be successful in our claims 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 or, if we have insufficient cash, be required to satisfy our obligation to repurchase the outstanding notes, in whole or in part, 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 Note 17. 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.

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 is currently 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.

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.

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 by our competitors;
- 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 our competitors.

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. 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, 2010, 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, 2010, 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 assets, and a substantial portion of our assets, are located outside of the U.S. As a result, it may be difficult for investors in the U.S. or outside of Canada to bring an action in the U.S. against directors, officers or experts who are not resident in the U.S. It may also be difficult for an investor to enforce a judgment obtained in a U.S. court or a court of another jurisdiction of residence predicated upon the civil liability provisions of Canadian security laws or U.S. federal securities laws or other laws of the U.S. or any state thereof against us or those persons.

Item 1B. Unresolved Staff Comments- Not Applicable.

Item 2. Properties

The Company acquired the Brisas Project and the Choco 5 property in 1992 and 2000, respectively. From 1992 to 2008 we focused substantially all of our management and financial resources on the development of the Brisas Project. In April 2008, Venezuela revoked the previously issued Authorization to Affect for the Brisas Project. 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 and to file a Request for Arbitration under the Additional Facility Rules of ICSID against Venezuela as discussed herein. Subsequent to our filing with ICSID, Venezuela took physical possession of the property, seized our assets and expelled our personnel. See Item 3. Legal Proceedings Arbitration.

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, regulatory process and reported mineral reserves for the Brisas Project and 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.

PROPERTIES

Brisas Project

Location

The Brisas Project was located in the Km 88 mining district in the State of Bolivar in southeastern Venezuela approximately 373 kilometers (229 miles), by paved highway, southeast of Puerto Ordaz (Ciudad Guayana). The project, accessible by an all-weather road, was 5 kilometers west of the Km 88 marker on Highway 10. Puerto Ordaz is the center of major regional industrial development with nearby hydroelectric generating plants and port facilities accessible to ocean-going vessels from the Atlantic Ocean, via the Orinoco River.

Properties

The Brisas Project primarily consisted of a 500-hectare land parcel consisting of the Brisas Alluvial Concession and the Brisas Hardrock Concession beneath the alluvial concession (the Brisas concessions). Together these concessions contained substantially all of the mineralization identified in the Company s development plan documents including the Bankable Feasibility Study, as updated, and numerous other supporting documents and studies. Brisas also included a number of other existing concessions or pending applications for concessions, alfarjetas, Corporación Venezolana de Guayana (CVG) (a government-owned corporation) work contracts, land use authorizations or easements adjacent to or near the Brisas concessions for the planned mining and milling facility, related infrastructure and future needs totaling as much as 13,000 hectares.

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

Development History

MIBAM s approval of the Brisas operating plan in 2003 was a prerequisite for submitting the Brisas Environmental and Social Impact Study for the Exploitation and Processing of Gold and Copper Ore (Estudio de Impacto Ambiental y Sociocultural or ESIA) to the Ministry of Environment (MinAmb). MinAmb approved the ESIA in early 2007 and in March 2007 issued the Authorization to Affect. The Authorization to Affect provided for the commencement of construction for certain infrastructure work, including various construction activities at or near the mine site, but not the erection of the mill and the exploitation of the gold and copper mineralization at Brisas.

Based on the issuance of the Authorization to Affect, we commenced significant pre-construction procurement efforts with the assistance of our Engineering, Procurement and Construction Management (EPCM) contractor awarding contracts for Brisas site prep and construction camp facilities and placing orders for the gyratory crusher, pebble crushers, SAG and ball mills, mill motors and other related processing equipment, early-works construction equipment and various other site equipment totaling approximately $125 million, accelerated detailed project engineering, hired a number of senior technical staff, completed the sale of approximately $104 million of convertible notes and $74 million (net of expenses) in new equity, launched a number of environmental and social initiatives and commenced preparation of the Brisas site for construction activities.

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

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 Company and the project s EPCM (Engineering, Procurement, and Construction Management) contractor updated the capital costs contained therein.

The 2008 NI 43-101 report assumed $600 per ounce gold and $2.25 per pound copper for the base-case economic model resulting in projected cash operating costs (net of copper byproduct credits) of $120 per ounce of gold. Total costs including cash operating costs,

exploitation taxes, initial capital costs (excluding sunk cost), and sustaining capital costs were projected to be $268 per ounce of gold.

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. The operating plan anticipated utilizing conventional truck and shovel mining methods with the processing of ore projected at full production of 75,000 tonnes per day, yielding an average annual production of 457,000 ounces of gold and 63 million pounds of copper over an estimated mine life of approximately 18.25 years. The strip ratio (waste to ore) was estimated at 2.24:1. The proposed mining and processing methods were all based on conventional technology and no new or unproven technology was expected to be employed. The reserve and resource estimates contained in this report were prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System.

The projected initial capital cost to construct and place Brisas into production at the date of the report totaled approximately $731 million excluding working capital, critical spares and initial fills of approximately $53 million and ongoing life-of-mine requirements estimated at $269 million and value added taxes of approximately $54 million.

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

In April 2009, as a result of Venezuela s failure to reinstate the Authorization to Affect and the lack of any meaningful dialog to resolve the prolonged obstruction of our rights to the Brisas Project, we notified Venezuela of the existence of a dispute between the Company and Venezuela under both: (1) Canada Venezuela Treaty and (2) the Barbados Venezuela Treaty.

Further, in May 2009, MIBAM denied the normal course extension of our Brisas Alluvial Concession and also denied the extension of the El Pauji Concession held for infrastructure purposes. We applied for the extension of both the Brisas Alluvial Concession and the El Pauji Concession pursuant to Article 25 of the Venezuelan mining law, which provided MIBAM a six-month period ending in April 2008 and July 2008, respectively, to decide on the extension requests. MIBAM did not respond to either of our requests for extension during the requisite time period. As a result of MIBAM's failure to expressly deny the extension application in the requisite time period, the extensions were automatically granted pursuant to Article 25 of the mining law. More than one year after the six month time periods elapsed, MIBAM issued decisions denying the extension requests. Citing internal reports (the contents of which were not disclosed to us until months later) the decisions asserted without evidence and prior notice that the Company was not in compliance with its obligations in regards to the concessions. Those decisions were issued notwithstanding the fact that in September 2008, after the lapse of the six-month time period, we received from MIBAM a certificate of compliance (or good standing) confirming the Company s compliance with obligations set forth in the mining law and in the title for the Brisas Alluvial and El Pauji Concessions. MIBAM acknowledged that we timely filed our extension application and acknowledged that it made its evaluation on the status of the concession subsequent to the six-month time period promulgated in Article 25 of the mining law, effectively ignoring its own regulations and laws.

With no formal response from Venezuela concerning our April 2009 notice regarding the existence of a dispute between the Company and Venezuela, in August 2009 we delivered a follow-up notice reminding Venezuela of the existence of a dispute and confirming our intent to amicably settle the dispute if possible. Again, we received no formal response from Venezuela regarding the investment dispute between the Company and Venezuela.

On October 21, 2009 we filed a Request for Arbitration under the Additional Facility Rules of ICSID, against Venezuela seeking compensation for the losses to the Company resulting from Venezuela's violations of the Canada Venezuela Treaty in regard to the Company and its investments in Venezuela relating to the Brisas Project and the Choco 5 property in the Bolivar State of Venezuela. See Item 3. Legal Proceedings Arbitration. In evident retaliation, Venezuelan government personnel arrived at the Brisas Project camp site on October 26, 2009, claimed ownership of the Brisas Alluvial Concession, seized assets, expelled our personnel, and took physical possession of the property. Subsequently, on November 4, 2009, Venezuela notified us through the issuance of an Administrative Act, dated October 20, 2009, of its intent to cancel our underlying hard rock concession which it did pursuant to a notice delivered to the Company in June 2010.

Since acquiring the Brisas Alluvial Concession in 1992, we have expended close to $300 million on the Brisas Project (including equipment recorded in the Consolidated Balance Sheet and financial, legal and engineering costs incurred in support of our Venezuelan operations and the $151 million write-down of previously capitalized costs associated with our Venezuelan operations recorded in the Consolidated Statement of Operations).

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

Choco 5 Property

The Choco 5 property was a grass-roots gold and other minerals exploration target also located in the State of Bolivar, Guayana region. The property consisted of a 5,000 hectare parcel located 24 kilometers west of the mining community of El Callao (population approximately 25,000) located in the El Callao gold mining district and 200 kilometers south of Puerto Ordaz, the nearest major city. The underlying mining title or concession for the area known as the Choco 5 property was issued by MEM to CVG on May 11, 1993. The concession was subsequently leased by CVG to CVG/Minerven (a CVG subsidiary) pursuant to an agreement dated December 22, 1998 (the Choco 5 Lease). On June 28, 2000, CVG/Minerven subleased the Choco 5 Concession to the Company (the Choco 5 Sublease). The Choco 5 concession was a vein (hardrock) and alluvial concession for the exploration and subsequent exploitation of primarily gold and copper as well as other minerals. Subsequent to acquiring the Choco 5 property, we invested approximately $1.5 million on the exploration, which included acquisition costs, geological mapping, airborne geophysics, stream sediment and soil geochemistry, mapping, geomorphological study, drilling and assaying. We suspended all Choco 5 exploration activities pending the resolution of the Brisas investment dispute with Venezuela. See Item 3. Legal Proceedings Arbitration.

Item 3. Legal Proceedings

Arbitration

In April 2008, Venezuela revoked the Brisas Project Authorization to Affect. In October 2009, in response to the revocation, the Company filed a Request for Arbitration under the Additional Facility Rules of ICSID of the World Bank, in Washington D.C. seeking compensation for the losses caused to the Company as a result of Venezuela s violations of the Canada Venezuela Treaty relating to the Company and its investments in the Brisas Project and the Choco 5 property.

The Canada Venezuela Treaty 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 with other legal or administrative challenges to the conduct that forms the basis of the ICSID claim, including the revocation of the Permit and the denial of the extension of the Brisas Alluvial and El Pauji Concessions.

In November 2009 ICSID registered our Request for Arbitration and in April 2010, the first Session of the Tribunal was held that established procedural matters and the calendar for the briefings. In compliance with the schedule established by the ICSID Tribunal, we filed the Memorial on September 24, 2010, seeking compensation of US$1.928 billion for all of the loss and damage resulting from Venezuela s wrongful conduct, which includes the full market value of the legal rights to develop the Brisas Project.

As presently directed by the Tribunal, Venezuela s Counter-Memorial is due April 14, 2011; Gold Reserve s Reply is due July 15, 2011, Venezuela s Rejoinder is due October 17, 2011, and the hearing date is scheduled for February 6, 2012. A decision by the Tribunal may be issued by late 2012 or early 2013.

Refer to www.goldreserveinc.com/international arbitration for additional information regarding the procedural status of the Company s arbitration against the Republic of Venezuela (the Respondent). The information located on our website is not incorporated by reference to this annual report and has not been filed or furnished to the SEC.

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. During 2010 the Company 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.

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 of Gold Reserve Inc. are traded on The Toronto Stock Exchange (TSX) and on the NYSE 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		NYSE Amex	
	Canadian dollars		*U.S. dollars*	
2011	High	Low	High	Low
March (through 03/22/11)	$1.77	$1.66	$1.82	$1.67
February	1.82	1.66	1.85	1.68
January	1.88	1.67	1.87	1.67

2010				
Fourth Quarter	$1.84	$1.39	$1.84	$1.37
Third Quarter	1.32	0.82	1.28	0.80
Second Quarter	1.25	0.76	1.24	0.71
First Quarter	1.63	1.01	1.58	0.98
2009				
Fourth Quarter	$1.79	$0.89	$1.73	$0.86
Third Quarter	1.13	0.51	1.04	0.48
Second Quarter	0.85	0.56	0.70	0.50
First Quarter	1.45	0.70	1.23	0.54

On March 22, 2011, the closing price for a Class A common share of the Company was Cdn $1.71 per share on the TSX and U.S. $1.70 per share on the NYSE Amex. As of March 22, 2011, there were a total of 58,962,351 Class A common shares and 500,236 Class B common shares issued and outstanding. The number of holders of Class A and Class B common shares of record on March 22, 2011 was approximately 819. As of March 22, 2011, based on information received from our transfer agent and other service providers, we believe our common shares are owned beneficially by approximately 8,000 shareholders.

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Gold Reserve Corporation, the NASDAQ Composite Index and the S&P Gold Index

Fiscal year ending December 31.

Exchange Controls

There are no governmental laws, decrees or regulations in Canada that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to nonresident holders of the securities of the Company, other than a Canadian withholding tax. See Certain Canadian Income Tax Considerations for U.S. Residents, below.

Certain Canadian Federal Income Tax Considerations for U.S. Residents

The following summarizes certain Canadian federal income tax consequences generally applicable under the Income Tax Act (Canada) and the regulations enacted thereunder (collectively, the Canadian Tax Act) and the Canada-United States Income Tax Convention (1980) (the Convention) to the holding and disposition of common shares.

Comment is restricted to holders of common shares each of whom, at all material times for the purposes of the Canadian Tax Act and the Convention, (i) is a resident of the United States and is not a resident of Canada, (ii) is entitled to the benefit of the Convention, (iii) holds all

common shares solely as capital property, (iv) deals at arm s length with and is not affiliated with Gold Reserve, and (v) does not use or hold and is not deemed to use or hold, any common shares in a business carried on in Canada, and none of whose common shares constitute taxable Canadian property as defined in the Canadian Tax Act (each such individual, a U.S. Resident).

Generally, a person will be considered to hold a common share as capital property provided that the person acquired the share as a long-term investment, is not a trader or dealer in securities, did not acquire, hold or dispose of the share in a transaction considered to be an adventure or concern in the nature of trade (i.e. speculation), and does not hold the common share as inventory in the course of carrying on a business. Special rules, which are not discussed below, may apply to a U.S. Resident who is an insurer that carries on business in Canada and elsewhere.

Generally, (a) a person s Class A common shares will not constitute taxable Canadian property at a particular time provided that the common shares are listed on a designated stock exchange (which currently includes the Toronto Stock Exchange) at that time and at all times in the 60 months preceding the particular time, (i) neither the person nor one or more other persons with whom the first person does not deal at arm s length, alone or in any combination, held, directly or indirectly, 25% or more of the issued shares of any class in the capital stock of Gold Reserve, or (ii) more than 50% of the fair market value of the share was not derived directly or indirectly from one or any combination of (A) real or immovable property situated in Canada, (B) Canadian resource properties, (C) timber resource properties and (D) options in respect of, or interests in, or for civil law rights in, property described in any of (A), (B) and (C), whether or not the property existed, and (b) a person s Class B common shares will not constitute taxable Canadian property at a particular time provided that at all times in the 60 months preceding the particular time, more than 50% of the fair market value of the share was not derived directly or indirectly from one or any combination of property described in any of (A), (B), (C) and (D) above, whether or not the property existed.

Certain entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) do not qualify as residents of the United States for the purposes of the Convention. A member or holder of an interest in such an entity that holds common shares should consult the member or holder s own tax advisors.

This summary is based on the current provisions of the Canadian Tax Act and the Convention in effect on the date hereof, all specific proposals to amend the Canadian Tax Act and Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof (the Tax Proposals), and the current published administrative and assessing policies of the Canada Revenue Agency. It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative policy, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations, and is not and is not to be construed as legal or tax advice to any particular holder or prospective holder of common shares. Each holder or prospective holder of common shares is urged to consult his, her or its own tax advisors for advice with respect to the holder or prospective holder s particular circumstances. The discussion below is qualified accordingly.

Disposition of Common Shares

A U.S. Resident who disposes of a common share will not thereby incur any liability for Canadian federal income tax.

Taxation of Dividends on Common Shares

A U.S. Resident who is or is deemed to be paid or credited a dividend on the U.S. Resident s common shares will be subject to Canadian withholding tax equal to 15% or, if the U.S. Resident is a company that holds 10% or more of the voting stock of Gold Reserve, 5%, of the gross amount of the dividend. A U.S. Resident that is (i) a qualifying religious, scientific, literary, educational or charitable organization and is exempt from tax in the U.S., or (ii) a qualifying trust, company, organization or arrangement operated exclusively to administer or provide pension, retirement or employee benefits and is exempt from tax in the U.S. may be exempt under the Convention from Canadian withholding tax provided specific administrative procedures are complied with.

Item 6. Selected Financial Data

	2010	2009	2008	2007	2006
STATEMENT OF OPERATIONS					
Other Income	$ 958,368	$ 3,165,736	$ 2,521,302	$ 6,499,084	$ 8,252,058
Expenses					
Corporate general and administrative	$ 3,288,691	$ 4,559,721	$ 7,707,545	$ 12,983,822	$ 6,836,418
Venezuelan expenses	1,714,543	3,600,648	5,030,541	4,635,784	5,231,333
Corporate communications	525,658	753,737	1,043,227	977,454	724,622
Legal and accounting	446,611	1,320,855	1,035,065	781,243	772,695
	5,975,503	10,234,961	14,816,378	19,378,303	13,565,068
Equipment holding costs	1,567,181	401,336	15,000		
Write-down of machinery & equipment	2,518,796				
Loss (gain) on sale of equipment	(419.413)	3,423,544	1,346,423		
Arbitration	6,289,647	673,592			
Takeover defense		1,330,366	5,271,360		
Foreign currency (gain) loss	21,907	(5,429)	61,212	(926,299)	1,141,932
Loss before interest expense, income tax and extraordinary item	(14,995,253)	(12,892,634)	(18,989,071)	(11,952,920)	(6,454,942)
Interest expense	(8,911,448)	(1,688,403)			
Income tax benefit (expense)	359,767	(142,319)	(737,050)	(26,848)	(521,803)
Loss before extraordinary item	(23,546,934)	(14,723,356)	(19,726,121)	(11,979,768)	(6,976,745)
Extraordinary loss on expropriation		(150,726,472)			
Net loss	(23,546,934)	(165,449,828)	(19,726,121)	(11,979,768)	(6,976,745)
Net loss per share - basic and diluted	(0.41)	(2.89)	(0.35)	(0.24)	(0.18)

Note: *Expenses for the periods prior to the year ended December 31, 2010 have been reclassified to be comparative with the 2010 presentati*